Pollard Banknote Income Fund

ANNUAL REPORT 2005

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LETTER TO UNITHOLDERS

Pollard Banknote was established in 1907 by Oliver Pollard and George Saults as Saults & Pollard Limited – a small commercial printer serving the local Winnipeg market. Since that time we have grown to annual sales of over $170 million serving customers all over the world. As we enter our 100th year of operations, we can look back on 2005 as a watershed year in our long history. The decision to become a public entity, after so long as a private company, we believe presents Pollard Banknote with tremendous opportunities for continued growth. It also gives us the opportunity to share with you the excellent results achieved by our more than 1300 employees in 2005.

Sales

During the period starting with the completion of our initial public offering on August 5, 2005 and ending December 31, 2005, our sales exceeded $76 million. This is an increase of approximately $6 million compared to our sales in the comparable time period in 2004. This sales increase was achieved by adding new clients, increasing our sales from existing clients and generating higher selling prices. In fact, this sales increase would have been approximately $13 million if not for the strengthening Canadian dollar which had the effect of reducing our sales by approximately $7 million.

We continue to develop and expand our portfolio of proprietary products. In 2005 we sold our patented Fusion tickets to 13 different lotteries around the world including Mifal Hapayis (the Israeli Lottery), the Michigan Lottery and the British Columbia Lottery Corporation. As well, we made a major sale of our proprietary Onserted Pouched Tickets to La Française des Jeux (National Lottery of France).

We were very pleased to add the National Lottery of Belgium and the Quebec Provincial Lottery – Loto-Québec – as new instant ticket customers in 2005. We also made a very significant sale of vending machines to the Iowa Lottery. In the charitable gaming sector, we signed a new contract with the Province of Saskatchewan to manage and supply the charitable pull tab ticket sector in that province.

Operations

We completed a significant expansion of our Ypsilanti, Michigan instant ticket facility during the year which will improve our efficiency and give us room for further growth. Through the dedication of our staff to continuous improvement, we have implemented many changes to increase productivity and improve our products and have more exciting opportunities identified for 2006.

Distributable Cash

During the period August 5, 2005 to December 31, 2005 we generated $9.8 million in distributable cash or $0.4150 per unit. This result exceeded the target of $0.3858 established in our Final Prospectus. In accordance with this target, the Fund declared and made cash distributions of $9.1 million – a payout ratio of 92.9%.

Employee Profit Sharing

We have always believed that outstanding results can only be achieved when you employ outstanding people. To recognize and reward the contributions of our employees we have, for the last 15 years, shared a fixed percentage of our earnings with our employees. In the period from August 5 to December 31, 2005, this resulted in the payment of $908,000 shared equally among more than 900 qualifying employees.

Outlook for 2006

Looking forward to 2006, we anticipate that the lottery industry will continue its historic levels of growth providing Pollard Banknote with excellent prospects for 2006 and beyond. In addition, the charitable gaming sector is currently undergoing a rationalization which we believe will provide us with the opportunity to increase our sales and profits in this sector in the coming year. Finally, we are continuing to seek out potential acquisitions that will allow us to further increase our cash distributions.

In short, we expect to continue to expand our business in order to meet or exceed our cash distribution targets.

In closing, we would like to thank some of the people who made this watershed year so successful: our employees who are critical to our history of continuous improvement; our management team which was not only responsible for the day-to-day direction of our operations but also had to contend with the demands of completing an IPO; our customers who continue to honour us with their business; and our unitholders who have demonstrated their faith in our organization by investing in the Fund.

Gordon Pollard
CO-CHIEF EXECUTIVE OFFICER

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Trustees of Pollard Banknote Income Fund
Directors of Pollard Banknote Limited

Lawrence Pollard

CHAIRMAN, DIRECTOR

Lawrence Pollard joined Pollard Banknote in 1947 and served as President of the company from 1960 until 1997. Mr. Pollard serves on the board of directors of several public and private companies including Gendis Inc., Grain Insurance and Guarantee Co. and The Winnipeg Foundation. He has served as president of the Winnipeg Chamber of Commerce and was named Manitoba's Entrepreneur of the Year in 1991.

Del Crewson

TRUSTEE AND DIRECTOR

Del Crewson is a former senior partner and Vice-Chair of Deloitte and Touche LLP. He is a member of the Institute of Chartered Accountants of Manitoba and has been elected a "Fellow" of the Institute. Mr. Crewson serves on the Board of Directors of The Wawanesa Mutual Insurance Company, on the Audit Committee of the University of Winnipeg and is a member of the Institute of Corporate Directors. He is the past President of the Institute of Chartered Accountants of Manitoba and is a former Canadian Institute of Chartered Accountants Board and Executive Committee member.

The Honourable Gary Filmon, P.C., O.M.

TRUSTEE AND DIRECTOR

Gary Filmon was Premier of Manitoba from 1988 through 1999. A registered professional engineer, Mr. Filmon attended the University of Manitoba, receiving both his Bachelor of Science Degree and Master's Degree in Civil Engineering. He is currently Vice-Chairman of Wellington West Capital Inc., Vice Chair and Trustee of Arctic Glacier Income Fund, Chair of Canada's Security Intelligence Review Committee and Chairman of the Exchange Industrial Income Fund. As well, he is a board member of F.W.S. Construction Limited, Manitoba Telecom Services Inc., Canadian Natural Resources Limited and a member of the Advisory Board of Marsh Canada.

Jerry Gray

TRUSTEE AND DIRECTOR

Jerry Gray is Dean Emeritus of the I. H. Asper School of Business at the University of Manitoba where he also held the CA Manitoba Endowed Chair in Business Leadership. Dr. Gray is a Director of Gendis Inc. and CentreVenture, Inc., and a Council Member of the Institute of Chartered Accountants of Manitoba. He has consulted with many major corporations in the United States and Canada in the areas of motivation, organizational design, manpower planning, managing change, management development, incentive system design, customer service, and strategic planning.

Douglas Pollard

DIRECTOR

Douglas Pollard is Vice President, Lottery Management Services of Pollard Banknote. In 1997 he joined Pollard Banknote and from 1997 to 1999 he was a director and the General Manager of Imprimerie Spéciale de Banque, a subsidiary of Pollard Banknote based in Paris, France. Prior to 1997 Mr. Pollard was a Senior Consultant with PricewaterhouseCoopers. Mr. Pollard has an M.B.A. from The Richard Ivey School of Business at the University of Western Ontario and a B.A. from the University of Manitoba.

Gordon Pollard

DIRECTOR

Gordon Pollard is Co-Chief Executive Officer of Pollard Banknote. He joined the company in 1989 as Vice President, Marketing and became Co-Chief Executive Officer in 1997. Prior to 1989, he practiced law with a major Manitoba law firm specializing in corporate and securities law. Mr. Pollard has an LL.B. from the University of Manitoba and a B.A. from the University of Winnipeg.

John Pollard

DIRECTOR

John Pollard is Co-Chief Executive Officer of Pollard Banknote. He joined the company in 1986 as Vice President, Finance and became Co-Chief Executive Officer in 1997. Prior to 1986, he was an associate with the accounting firm Deloitte & Touche LLP. Mr. Pollard has a B. Comm from the University of Manitoba and is a member of the Institute of Chartered Accountants of Manitoba.

This management's discussion and analysis ("MD&A") of Pollard Banknote Income Fund (the "Fund") and Pollard Holdings Limited Partnership ("Pollard LP", "Pollard Banknote") for the period ended December 31, 2005, is prepared as at March 13, 2006, and should be read in conjunction with the accompanying financial statements of the Fund and Pollard LP and the notes therein as at December 31, 2005, and the Prospectus of the Fund (the "Prospectus") dated July 27, 2005. Results are reported in Canadian dollars and have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP").

Forward-Looking Statements

Certain statements in this report may constitute "forward-looking" statements which involve known and unknown risks, uncertainties and other factors which may cause actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this document, such statements include such words as "may", "will", "expect", "believe", "plan", and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this document. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

Basis of Presentation

The Fund does not consolidate the results of the operations of Pollard LP. As a result, the audited financial statements with accompanying notes therein have been presented for both the Fund and Pollard LP. In addition, the following management's discussion and analysis presents a discussion of the financial condition and results of operations for both the Fund and Pollard LP.

FUND

The results of operations in the following discussions encompass the consolidated results of the Fund for the period August 5, 2005 to December 31, 2005. The Fund was formed on June 29, 2005, and remained inactive until August 5, 2005.

Since this is the first reporting period with business operations for the Fund, there are no comparative figures representing the operations of the Fund in prior periods.

POLLARD LP

The results of operations in the following discussions encompass the consolidated results of Pollard LP for the period August 5, 2005 to December 31, 2005. Pollard LP was formed on June 29, 2005, and remained inactive until August 5, 2005.

Subsequent to the formation of Pollard LP, Pollard Banknote Limited (renamed Pollard Amalco Inc., "Amalco", "the predecessor company") transferred its business of the manufacture and sale of lottery and gaming products (the "business") to Pollard LP. As the transfer was between entities under common control and involved no substantive change in the ultimate ownership at the time the business was transferred, it has been accounted for under the continuity of interests method of accounting. Accordingly, the book values of Amalco have been transferred to Pollard LP and these consolidated financial statements reflect the financial position, results of operations and cash flows as if Pollard LP has always carried on the business formerly carried on by the predecessor company.

The financial results for the period November 1, 2004 to August 4, 2005 and the twelve months ended October 31, 2004 (the "comparative consolidated financial statements") reflect the operations of the predecessor company.

The comparative consolidated financial statements of the predecessor company prior to the legal formation of Pollard LP on June 29, 2005, and the commencement of business operations by Pollard LP on August 5, 2005, are not necessarily indicative of the results that would have been obtained if the predecessor company had operated the business during the period presented and, therefore, are not necessarily indicative of future operating results.

No adjustments have been made to the predecessor company's financial statements prior to August 5, 2005, to reflect incremental changes to the cost structure and capital structure as a result of the legal formation of Pollard LP and no changes have been made to reflect certain assets and liabilities that were not transferred to Pollard LP as part of the acquisition. Readers are cautioned that the historical operations may not be indicative of the operations if Pollard LP had owned the business during that period.

For information purposes the unaudited results of operations for the fourteen months ended December 31, 2005 are included in the consolidated financial statements and the management's discussion and analysis.

Change in Year End

With the transfer of the business on August 5, 2005, Pollard LP adopted a fiscal year ending on December 31. Amalco's fiscal year ended October 31. As a result, comparative information for Pollard LP's current fourteen month period November 1, 2004 to December 31, 2005 ("Fiscal 2005"), is the twelve months ended October 31, 2004 ("Fiscal 2004"). Fiscal 2005 includes the results of Pollard Amalco Inc. from November 1, 2004 to August 4, 2005 and the results of Pollard Holdings Limited Partnership for the period from August 5, 2005 to December 31, 2005.

As Fiscal 2005 includes two more months of operations compared to Fiscal 2004 readers are cautioned that no direct comparison of sales, cost of sales or results of operations can be made.

All figures are in millions except for unit amounts.

Pollard Banknote Income Fund

Formation of the Fund

Pollard Banknote Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust dated June 29, 2005. It is intended that the Fund will qualify as a "mutual fund trust" for the purposes of the Income Tax Act (Canada) and was established to acquire and hold indirectly an investment in Pollard Holdings Limited Partnership ("Pollard LP").

The Fund was inactive from June 29, 2005 to August 4, 2005. The Fund filed a final prospectus dated July 27, 2005 relating to the initial public offering of 5,605,538 Fund Units and also completed, on August 5, 2005, a private placement of 400,000 Fund Units. Concurrent with these closings, the Fund used the gross proceeds of $60.1 million from the sale of its Fund Units to invest indirectly in Pollard LP, through a newly constituted wholly-owned trust, Pollard Banknote Trust ("Trust"). The Fund acquired an indirect interest of 25.5% of Pollard LP comprising 6,005,538 Class A Limited Partnership ("LP") Units in exchange for cash consideration of $60.1 million.

On August 29, 2005, the underwriting group exercised the over-allotment option, resulting in the issuance of an additional 280,162 units of the Fund, allowing the Fund to indirectly purchase 280,162 further Class A LP Units of Pollard LP for net proceeds of $2.6 million. Concurrently, Pollard LP redeemed 280,162 Class B Limited Partnership ("LP") Units owned by Pollard Banknote Limited (renamed Pollard Amalco Inc., "Amalco", "the predecessor company") for proceeds of $2.6 million. After giving effect to the over-allotment and the redemption, the Fund indirectly owns units entitling it to approximately 26.7% of the cash distributions of Pollard LP.

In conjunction with the issuance of Class B and Class C LP Units of Pollard LP, Special Voting Units of the Fund were issued to provide voting rights to the holders of Class B and Class C LP Units. After giving effect of the over-allotment, 17,257,458 Special Voting Units were issued in conjunction with the issuance of Class B and Class C LP Units of Pollard LP.

The Fund earned $1.9 million in net income from its investment in Pollard LP for the period August 5, 2005 to December 31, 2005. The Fund's net income is limited to its proportionate share of net income of Pollard LP, the amortization of the excess of the purchase price of its investment in Pollard LP over the underlying assets acquired and administrative expenses incurred by the Fund. The Fund recorded amortization related to the purchase price adjustment of $0.7 million and administrative expenses of $0.07 million for the period August 5, 2005 to December 31, 2005.

The Fund is entirely dependent on distributions from Pollard LP to make its own distributions.

As at December 31, 2005, the Fund had total assets of $62.7 million. Its largest single asset is its investment in Pollard LP. The Fund had no long-term financial liabilities as at December 31, 2005.

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to unitholders. The Fund does not recognize any future income tax assets or liabilities on temporary differences in the Fund because the Fund intends to distribute or designate to its unitholders all, or virtually all, of its taxable income and taxable gains. The Fund intends to continue to meet the requirements under the Income Tax Act and there is no indication that the Fund will fail to meet those requirements.

Distributions

During the period the Fund declared the following distributions:

DATE DECLARED	MONTH	DATE OF RECORD	PAYMENT DATE	AMOUNT PER UNIT
August 19	August	August 31	September 15	$0.069
September 12	September	September 30	October 15	$0.0792
October 12	October	October 31	November 15	$0.0792
November 14	November	November 30	December 15	$0.0792
December 14	December	December 30	January 16, 2006	$0.0792

Units

As at December 31, 2005, and March 13, 2006, the Fund had 6,285,700 Units issued and outstanding.

In addition, the Fund has issued and outstanding 17,257,458 Special Voting Units owned entirely by Amalco. These Special Voting Units are used solely for providing voting rights to the holders of the Class B and Class C LP Units of Pollard LP and are not transferable separately from the Class B LP and Class C LP Units. Special Voting Units do not entitle the holder to any rights with respect to the Fund's property, distributions or income.

On August 5, 2005, the Fund, the Trust, Pollard Banknote Limited (the "General Partner"), Pollard LP and Amalco entered into an exchange agreement (the "Exchange Agreement"). The Exchange Agreement stipulates that Amalco has the right to require the Fund to indirectly exchange Class B LP Units and, subject to the terms of the subordination, Class C LP Units held by Amalco for Units of the Fund, on the basis of one Fund Unit for each Class B LP Unit or Class C LP Unit exchanged. This exchange ratio is subject to anti-dilution adjustments explained further in the Exchange Agreement. The exchange of LP units under this agreement would not dilute the Fund's income per Unit measure as any decrease in the income per Unit caused by the increase in the number of Fund's Units outstanding would be fully offset by an increase in the Fund's proportionate share of Pollard LP's income.

Income per Unit

Net income per unit for the period August 5, 2005 to December 31, 2005, was $0.31 per unit.

Financial Instruments

Distributions receivable, distributions payable and accounts payable are reflected in the financial statements at carrying values, which approximate fair value because of the short-term maturity of these financial instruments. The Fund had no other financial instruments at December 31, 2005.

Critical Accounting Estimates

The preparation of the financial statements in conformity with Canadian generally accepted accounting principles ("Canadian GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of the Fund regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of an accounting policy that requires significant management judgment and estimation. For a discussion of all of the Fund's accounting policies, including the item outlined below, refer to note 2 of the consolidated financial statements of the Fund.

INVESTMENT

The valuation of the Fund's investment in Pollard LP is regularly reviewed by management to ensure that any decline in market value that is considered other than temporary is reflected in the related carrying value of the investment. In making that assessment, several factors are considered including the amount by which the carrying value exceeds market value, the duration of the market value decline and Pollard LP's expected future cash flows and earnings.

Related Party Transactions

On August 5, 2005, the Fund, the Trust and the General Partner entered into a Support Agreement. Under the terms of the Support Agreement, the General Partner will provide certain management, administrative and support services to the Fund and Trust and will be reimbursed for all direct and indirect costs and expenses it incurs in the provision of services pursuant to the Support Agreement. During the period these reimbursed costs totaled $0.07 million. In addition, issuance costs of the Fund of $6.2 million related to the issuance of units on August 5, 2005, were borne by Pollard LP.

Contingencies

The Declaration of Trust of the Fund provides that the trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust of the Fund and the constating documents of each of the Fund's subsidiaries provide for the indemnification of its respective trustees, directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. The Declaration of Trust of the Fund also provides for the indemnification of its trustees from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties as trustees, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in this balance sheet with respect to these indemnifications.

Industry Risks and Uncertainties

DEPENDENCE ON TRUST AND POLLARD LP

The Fund is an unincorporated, open-ended limited purpose trust, which is entirely dependent on the operations and assets of Pollard LP through its ownership of Trust. Cash distributions to Unitholders will be dependent on the ability of Trust to pay distributions in respect of the Trust Units and interest on the Trust Notes and in turn the ability of Pollard LP to pay distributions on its Class A Limited Partnership Units. Although the Fund intends to distribute the interest and other income earned by the Fund less expenses and amounts, if any, paid by the Fund in connection with the redemption of Units, there can be no assurance regarding the amounts of income to be generated by Pollard LP and paid to the Fund. The actual amount distributed in respect of the Units will depend upon numerous factors, including profitability, fluctuations in working capital, capital expenditures and compliance with restrictive covenant's under Pollard LP's Credit Facility.

Pollard Holdings Limited Partnership

Overview

Pollard Holdings Limited Partnership ("Pollard LP") is one of the leading providers of products and services to the lottery industry throughout the world and the charitable gaming industry in North America. Pollard LP is the largest provider of instant-win scratch tickets ("instant tickets") based in Canada and one of only three major producers of instant tickets in the world.

Pollard LP produces and provides a comprehensive line of instant tickets and lottery services including: licensed products, distribution, retail telephone selling ("tel-sell"), marketing and instant ticket vending machines. In addition, Pollard LP's charitable gaming product line includes pull-tab (or break-open) tickets, bingo paper, pull-tab vending machines and ancillary products such as pull-tab counting machines. Pollard LP also markets products to the commercial gaming and security sector including such items as promotional scratch and win, transit tickets and parking passes.

Pollard LP's lottery products are sold extensively throughout Canada, the United States and the rest of the world, wherever applicable laws and regulations authorize their use. Pollard LP serves over 45 instant ticket lotteries including a number of the largest lotteries throughout the world. Charitable gaming products are mostly sold in the United States where permitted by gaming regulatory authorities. Pollard LP serves a highly diversified customer base in the charitable gaming market of over 300 independent distributors with the majority of revenue generated from repeat business. For the fourteen month period ended December 31, 2005, 19% of revenue was generated in Canada and 61% was generated in the United States. The remaining 20% was generated from sales outside North America, predominately Europe.

Pollard LP derives most of its revenues from the sale of instant tickets and related services, which accounted for approximately 76% of its total revenue for the fourteen month period ended December 31, 2005. Pollard LP also manufactures and sells paper products for the charitable gaming market (pull-tabs and bingo paper), which together accounted for 13% of total revenues in the fourteen month period ended December 31, 2005. Manufacturing and selling vending machines accounted for 6% of total revenues in the fourteen month period ended December 31, 2005 and the remaining 5% of Pollard LP's revenue was derived from other activities, including the sale of paper tickets to the commercial or promotional games industry, Lottery Management Services ("LMS") and licensed property merchandise sales.

Pollard LP's key objectives are to generate stable cash distributions to unitholders and to grow distributable cash and cash distributions over time. Pollard LP's strategy to accomplish this is based on two core elements:

Organic Growth – Through expanding product offerings, assisting its customers grow their retail lottery gaming sales, obtaining new customers and by increasing its gross margin by cost reductions and increased efficiencies, Pollard LP will maintain and increase distributable cash available for unitholders.

Acquisitions – Selective acquisitions will be used to increase distributable cash. Acquisitions will augment the existing lottery and charitable gaming markets currently served and allow increased market share penetration. Any acquisitions will be accretive to existing unit holders. Acquisition targets could include non-gaming opportunities, such as manufacturers of security printing, if all of Pollard LP's acquisition criteria are met or exceeded.

Formation of the Limited Partnership

Pollard LP is a limited partnership established under the laws of the Province of Manitoba on June 29, 2005, by a partnership agreement as amended August 5, 2005. Pollard LP was established to acquire the business of the manufacture and sale of lottery and gaming products (the "business") from Pollard Banknote Limited renamed Pollard Amalco Inc., ("Amalco", "the predecessor company") and to operate such business thereafter. For the period between June 29, 2005 and August 4, 2005, Pollard LP was inactive.

On August 5, 2005, Amalco transferred the business and certain assets to Pollard LP, with a book value of $35.3 million, in exchange for promissory notes of $60.5 million and 14,006,146 Class B LP Units and 3,531,474 Class C LP Units, which have an estimated combined fair value of $172.2 million. The continuity of interests method of accounting was used to record this transaction.

As part of an initial public offering (the "offering") and a private placement, 6,005,538 Class A Limited Partnership Units ("LP Units"), equal to 25.5% of the outstanding limited partnership interests of Pollard LP, were issued indirectly to the Pollard Banknote Income Fund (the "Fund") in exchange for cash consideration of $60.1 million. The acquisition of the limited partnership units occurred through Pollard Banknote Trust (the "Trust"), a wholly-owned subsidiary of the Fund.

In addition, on August 5, 2005, the promissory notes were repaid using proceeds from issuance of 6,005,538 Class A LP Units and proceeds from the new credit facility (see "Liquidity and Capital Resources – Credit Facility").

On August 29, 2005, the underwriting group exercised an over-allotment option on the Fund resulting in the indirect purchase by the Fund of 280,162 additional Class A LP Units from Pollard LP for net proceeds of $2.6 million. In addition, on August 29, 2005, Pollard LP redeemed 280,162 Class B LP Units from Amalco for $2.6 million. After the redemption, 13,725,984 Class B LP Units remained outstanding.

After the exercise of the over-allotment, the Fund's economic interest in Pollard LP approximates 26.7% and Amalco's economic interest in Pollard LP approximates 73.3%.

The General Partner of Pollard LP is Pollard Banknote Limited which holds an economic interest of 0.05%.

Distributable Cash of Pollard LP

Management uses distributable cash to measure operating performance and therefore believes that distributable cash calculated from EBITDA is an appropriate measure to help readers evaluate the performance of the Fund and Pollard LP.

Distributable cash is defined as EBITDA (earnings before interest, taxes and amortization), less maintenance capital expenditures, cash taxes and interest expense.

Distributable cash and EBITDA are not recognized measures under Canadian GAAP and do not have standardized meanings prescribed by Canadian GAAP. Distributable cash, EBITDA and related measures may or may not be consistent with the calculation of similar measures for other companies and should not be viewed as alternatives to net earnings or other measures of performance calculated in accordance with Canadian GAAP (see "Use of Non-GAAP Financial Measures").

Pollard LP generated distributable cash totaling $9.8 million during the period August 5, 2005 to December 31, 2005 after considering the public expenses of the Fund and the Long Term Incentive Plan ("LTIP") accrual. This amount compares favorably to the target amount for distributable cash of $9.1 million. On a per unit basis, distributable cash totaled $0.4150, approximately $0.0292 over the target of $0.3858 per unit.

The following financial information should be read in conjunction with the accompanying financial statements of the Fund and Pollard LP and the notes therein as at and for the period ended December 31, 2005.

Reconciliation of Net Income to Distributable Cash

(MILLIONS OF DOLLARS)	REFERENCE	AUGUST 5, 2005 TO DECEMBER 31, 2005
Net Income		10.3
Adjustments:		
Interest		1.1
Unrealized foreign exchange gain		(0.3)
Long Term Incentive Plan (LTIP) expense		0.1
Mark to market gain on foreign currency contracts		(2.2)
Income taxes		(0.4)
Amortization		3.0
Adjusted EBITDA		11.6
Less:		
Cash taxes		(0.1)
Interest		(1.1)
Maintenance capital expenditures	1	(0.4)
Cash Available for Distribution (before Fund expenses and LTIP accrual)		10.0
Public issuer expenses of the Fund	2	(0.07)
LTIP expense	3	(0.1)
Distributable Cash	4	9.8

[1] Maintenance capital expenditures refer to capital expenditures, net of proceeds on disposals of assets replaced, that are necessary to sustain current cash flow. Growth capital expenditures refer to capital expenditures that are expected to increase cash flow.

[2] Represents public issuer expenses borne by the Fund for the period.

[3] Represents accrual for payments under the LTIP.

[4] Cash available for distribution will fluctuate on a monthly basis due to seasonal cash flows, maintenance capital expenditures, income taxes paid and interest costs on outstanding debt.

The Canadian Securities Administrators (Revised CSA Staff Notice 52-306) recommends distributable cash be reconciled to cash provided by operations from the statement of cash flows.

Distributable cash reconciled to cash provided from operations of Pollard LP is as follows:

Distributable Cash

(MILLIONS OF DOLLARS EXCEPT FOR UNIT AMOUNTS)	REFERENCE	AUGUST 5, 2005 TO DECEMBER 31, 2005
Net cash provided by operations		10.0
Net change in non-cash working capital		0.2
Net maintenance capital expenditures	1	(0.4)
Total estimated cash available for distribution (before Fund expenses)		9.8
Percentage of available cash distributable to Fund unitholders	2	26.7%
Cash available for distribution to Fund unitholders (before Fund expenses)		2.6
Public issuer expenses of the Fund	3	(0.07)
Distributable cash available to Fund unitholders	4	2.6
Distributions declared and payable		2.4
Distributable cash per unit		$0.4150
Distributions declared per unit		$0.3858
Number of weighted average of Fund units outstanding during the period		6,240,573
Number of Fund units outstanding December 31, 2005		6,285,700
Capital Expenditures:		
Maintenance expenditures		0.4
Growth expenditures		0.8
Total		1.2

[1] Maintenance capital expenditures refer to capital expenditures, net of proceeds on disposals of assets replaced, that are necessary to sustain current cash flow. Growth capital expenditures refer to capital expenditures that are expected to increase distributable cash flow.

[2] Percentage is equal to the economic interest the Fund has in Pollard LP.

[3] Represents public issuer expenses borne by the Fund for the period.

[4] Distributable cash available will fluctuate on a monthly basis due to seasonal cash flows, maintenance capital expenditures, income taxes paid and interest costs on outstanding debt.

Based on the results for August 5, 2005 to December 31, 2005, the actual payout ratio (actual cash distributions divided by distributable cash available for distribution) after the provision for LTIP was 92.9%.

The excess cash not distributed will be utilized to maintain future distributions, capital expenditures and investments in working capital.

The distribution policy of Pollard LP is to distribute its available cash as determined by the trustees. The current annual target for per unit distributions of the Fund is $0.9504. Distributions are made on the Class A LP Units and Class B LP Units within 15 days of the end of each month and on the Class C LP Units within 15 days of the end of each fiscal quarter. Distributions will be paid to the limited partners of record on the last day of the period in respect of which the distributions is to be paid.

Selected Financial Information

(MILLIONS OF DOLLARS)

	AUGUST 5, 2005 TO DECEMBER 31, 2005	NOVEMBER 1, 2004 TO AUGUST 4, 2005	FOURTEEN MONTHS ENDED DECEMBER 31, 2005	TWELVE MONTHS ENDED OCTOBER 31, 2004	TWELVE MONTHS ENDED OCTOBER 31, 2003
		(NOTE 3)	(UNAUDITED) (NOTE 3)	(NOTE 3)	(NOTE 3)
Sales	76.3	131.0	207.3	171.9	188.0
Cost of Sales	59.2	100.9	160.1	133.4	141.0
Gross Profit	17.1	30.1	47.2	38.5	47.0
Gross Profit as a % of sales	22.4%	23.0%	22.8%	22.4%	25.0%
Selling and Administration Expenses	8.5	14.0	22.5	19.4	20.4
Expenses as a % of sales	11.2%	10.7%	10.9%	11.3%	10.9%
Adjusted EBITDA (note 2)	11.6	21.4	33.0	28.3	35.8
Adjusted EBITDA as a % of sales	15.2%	16.3%	15.9%	16.5%	19.0%

	DECEMBER 31, 2005	OCTOBER 31, 2004	OCTOBER 31, 2003
		(NOTE 3)	(NOTE 3)
Total Assets	99.8	96.2	97.4
Total Long Term Liabilities	50.2	24.6	25.9

Reconciliation of Net Income to EBITDA and Adjusted EBITDA

(MILLIONS OF DOLLARS)

	AUGUST 5, 2005 TO DECEMBER 31, 2005	NOVEMBER 1, 2004 TO AUGUST 4, 2005	FOURTEEN MONTHS ENDED DECEMBER 31, 2005	TWELVE MONTHS ENDED OCTOBER 31, 2004	TWELVE MONTHS ENDED OCTOBER 31, 2003
		(NOTE 3)	(UNAUDITED) (NOTE 3)	(NOTE 3)	(NOTE 3)
Net income	10.3	8.9	19.2	4.9	6.2
Add back:					
Foreign currency contract mark-to-market gain	(2.2)	(1.9)	(4.1)	-	-
Amortization	3.0	6.2	9.2	8.6	8.9
Interest	1.1	0.7	1.8	0.9	1.3
Taxes (recovery)	(0.4)	5.3	4.9	3.8	4.7
Non-cash foreign exchange gain	(0.3)	-	(0.3)	(1.2)	(2.7)
EBITDA	11.5	19.2	30.7	17.0	18.4
Adjustments to EBITDA:					
Non-controlling interest in income of subsidiary	-	0.3	0.3	0.1	0.5
Non-recurring management bonuses	-	1.9	1.9	8.0	11.5
Long term incentive plan	0.1	-	0.1	-	-
Other non-recurring expenses	-	-	-	3.2	5.4
Adjusted EBITDA (note 2)	11.6	21.4	33.0	28.3	35.8

The above selected financial and operating information has been derived from, and should be read in conjunction with, the consolidated financial statements of Pollard LP.

NOTES:

(1) As a result of the year-end change from October 31 to December 31, the period ending December 31, 2005 reflects fourteen months operations, while the comparative period for the preceding year reflects the operations for the twelve months ending October 31, 2004.

(2) Adjusted EBITDA includes adjustments in the comparative prior period numbers to reflect the operating structure currently in existence and primarily involves adding back the discretionary management bonuses and certain non-recurring expenses such as professional fees and rent. Therefore Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Management believes the Adjusted EBITDA is a useful complementary measure of cash available for distribution.

(3) The information prior to August 5, 2005 represents the financial information of the business carried on by the predecessor company and is for comparative purposes only. The pro forma financial results for the fourteen months ended December 31, 2005 includes results of the predecessor company, Pollard Amalco Inc. for the period November 1, 2004 to August 4, 2005 and the results of Pollard Holdings Limited Partnership for the period August 5, 2005 to December 31, 2005. Please refer to Note 2 of the consolidated financial statements of Pollard LP.

Management's Discussion and Analysis
of Financial Condition and Results of Operations

Review of Operations

The review of operations of the business of Pollard LP is organized in three sections:

1) The results of operations are reviewed for the fourteen month period ended December 31, 2005 compared to the twelve month period ended October 31, 2004. Management believes the comparison of a complete fiscal period provides assistance in understanding the overall business operations.

2) The results of operations for the period August 5, 2005 to December 31, 2005 are reviewed to highlight the results of the business during the period Pollard LP owned and operated the business.

3) The results of operations for the period October 1, 2005 to December 31, 2005 is presented to provide information on the final quarter of Fiscal 2005.

Financial and operating information has been derived from, and should be read in conjunction with, the consolidated financial statements of Pollard LP and the selected financial information disclosed in this MD & A.

Analysis of Results for the Fourteen Months Ended December 31, 2005

(Due to the change in the fiscal year end, the comparative period for the pro forma fourteen month period November 1, 2004 to December 31, 2005 ("Fiscal 2005") is the twelve month period ended October 31, 2004 ("Fiscal 2004"). Fiscal 2005 includes two more months of operations compared to Fiscal 2004 and as such, no direct comparison of sales, cost of sales or results of operations can be made. The financial information for the fourteen month period is unaudited and includes the results of Pollard Amalco Inc. from November 1, 2004 to August 4, 2005 and the results of Pollard Holdings Limited Partnership for the period from August 5, 2005 to December 31, 2005.)

SALES

During Fiscal 2005, Pollard LP achieved sales of $207.3 million, compared to $171.9 million in Fiscal 2004. Three main factors impacted sales resulting in the $35.4 million sales increase:

GREATER NUMBER OF DAYS IN FISCAL 2005

Due to the change in year end, Fiscal 2005 consists of fourteen months, versus twelve months in Fiscal 2004. The longer reporting period accounted for an approximate increase of $28.7 million in sales relative to 2004.

SALES BREAKDOWN FISCAL 2005

SALES BREAKDOWN FISCAL 2004

STRENGTHENING OF THE CANADIAN DOLLAR

Pollard LP generates approximately 80% of its revenue in U.S dollars from its United States and International customers. During Fiscal 2005 the average Canadian dollar value versus the U.S dollar was $1.2086, compared to $1.3225 achieved during Fiscal 2004. This 8.6% change in value resulted in an approximate decline of $11.8 million in revenue relative to Fiscal 2004.

Foreign Exchange

Canadian Dollar vs. US Dollar

(UNAUDITED)

	AUGUST 5, 2005 TO DECEMBER 31, 2005	NOVEMBER 1, 2004 TO AUGUST 4, 2005	FOURTEEN MONTHS ENDED DECEMBER 31, 2005	TWELVE MONTHS ENDED OCTOBER 31, 2004	TWELVE MONTHS ENDED OCTOBER 31, 2003
Average Rate for the period	$1.1842	$1.2225	$1.2086	$1.3225	$1.4563

INCREASED SALES VOLUME

The volume of sales generated during Fiscal 2005 was higher than the comparable period of 2004. After adjusting for the additional two months, overall volumes for the period were higher by approximately 11% in Fiscal 2005 compared to a similar period in Fiscal 2004, resulting in increased sales of approximately $18.5 million. The increase in volume was primarily due to increased sales to a number of existing customers in our core instant ticket lottery product line, consistent with the ongoing growth in the overall instant ticket market. To a lesser extent, sales to new lottery customers such as the Belgium Lottery and Loto-Québec augmented the increased volume. Two large vending machine sales were achieved during Fiscal 2005, generating incremental sales over and above machine sales recorded in Fiscal 2004.

The percentage increase in other sales is primarily represented by increases in Lottery Management Services revenue.

After adjusting for the strengthening Canadian dollar, average selling prices achieved on both lottery and charitable gaming products were not materially different in Fiscal 2005 compared to Fiscal 2004.

Sales of licensed products including related merchandise sales, while still small, increased over the levels attained in Fiscal 2004. Charitable Gaming volumes remained steady in Fiscal 2005 in comparison to prior years.

PRODUCT LINE SALES FISCAL 2005

INSTANT TICKETS	76%
BREAKOPEN TICKETS	8%
VENDING MACHINES	6%
BINGO PAPER	5%
LICENSED PRODUCTS	2%
OTHER	3%

PRODUCT LINE SALES FISCAL 2004

INSTANT TICKETS	81%
BREAKOPEN TICKETS	8%
VENDING MACHINES	5%
BINGO PAPER	5%
OTHER	1%

COST OF SALES AND GROSS PROFIT

Cost of sales was $160.2 million in Fiscal 2005 compared to $133.4 in Fiscal 2004, reflective of the greater sales in Fiscal 2005, offset by reduced U.S dollar denominated costs due to the strengthening of the Canadian dollar relative to the U.S. dollar. Gross profit increased to $47.2 million from $38.5 million in Fiscal 2004 due primarily to the additional two months in Fiscal 2005. The gross profit margin remained consistent with 2004, increasing slightly in Fiscal 2005 to 22.8% from 22.4% in Fiscal 2004.

SELLING AND ADMINISTRATION EXPENSES

Selling and administration expenses were $22.5 million in Fiscal 2005 compared to $19.4 million in Fiscal 2004 primarily due to the greater number of days in Fiscal 2005.

Total selling and administration expenses as a percentage of sales decreased to 10.9% in Fiscal 2005, from 11.3% in Fiscal 2004. The year to year percentages are consistent after factoring out certain non-recurring professional fees in Fiscal 2004.

ADJUSTED EBITDA

Adjusted EBITDA was $33.0 million in Fiscal 2005 compared to $28.3 million in Fiscal 2004 primarily due to the greater number of days in the current fiscal period. Adjusted EBITDA margins were 15.9% in Fiscal 2005, compared to 16.5% achieved in Fiscal 2004. The decrease in adjusted EBITDA margins were due primarily to higher gross profit margins and reduced selling and administration expenses as a percent of sales being offset by lower levels of amortization and higher levels of employee profit sharing in Fiscal 2005.

AMORTIZATION

Amortization includes amortization of property and equipment and other assets, primarily patents, and totaled $9.2 million during Fiscal 2005, compared to $8.6 million in Fiscal 2004. The increase is due primarily to the greater number of days in Fiscal 2005. Adjusted for the greater number of days in the reporting period, amortization was lower by $0.8 million in Fiscal 2005 due to certain equipment under lease becoming fully depreciated at the end of Fiscal 2004.

INTEREST

Interest expense increased from $0.9 million to $1.8 million in Fiscal 2005, primarily due to the increased amount of debt outstanding under the new credit facility issued in conjunction with the transfer of the business on August 5, 2005.

MARK-TO-MARKET GAIN ON FOREIGN CURRENCY CONTRACTS

A non-cash gain of $4.1 million was recorded in Fiscal 2005 reflecting the increase in value of the foreign currency contracts used to hedge our net U.S. dollar exposure. No gain or loss was recorded during Fiscal 2004 as the hedging program was not initiated until April 2005.

EMPLOYEE PROFIT SHARING

Employee profit sharing costs increased by $1.1 million from $1.5 million in Fiscal 2004 to $2.6 million in Fiscal 2005. The change was due to an increase in the income subject to employee profit sharing during Fiscal 2005 as well as reflecting the increased income generated due to the additional two months.

MANAGEMENT BONUS

During Fiscal 2004 a management bonus of $8.0 million was incurred, compared to a management bonus of $1.9 million in Fiscal 2005, incurred prior to August 5, 2005.

INCOME TAXES

The effective income tax rate for Fiscal 2005 was 20.0% compared to 43.0% in Fiscal 2004. The lower rate reflects that subsequent to August 4, 2005, only Pollard LP 's incorporated subsidiaries are taxable entities. Prior to August 5, 2005, the effective tax rate incurred by the predecessor company was consistent with the rate incurred in Fiscal 2004.

NON-CONTROLLING INTEREST IN INCOME OF A SUBSIDIARY

Non-controlling interest in income of a subsidiary increased from $0.1 million in Fiscal 2004 to $0.3 in Fiscal 2005 reflecting higher net income in the subsidiary during the period prior to the redemption of the non-controlling interest in June of 2005.

NET INCOME

Net income increased by $14.3 million to $19.2 million in Fiscal 2005 from $4.9 million in Fiscal 2004, which is primarily due to the additional two months of operations in the reporting period and growth in the sales volume in the underlying business, combined with the decease in management bonus of $6.2 million and increase in mark-to-market gain on foreign currency contracts of $4.1 million.

Analysis of Results for the Period August 5, 2005 to December 31, 2005

(The period August 5, 2005 to December 31, 2005 represents the operations of Pollard LP from the date of the acquisition of the business from Amalco).

SALES

During the period August 5, 2005 to December 31, 2005, Pollard LP achieved sales of $76.3 million, approximately $6 million higher than a comparable time period in Fiscal 2004. Sales volumes in 2005 were higher than the comparable time period in Fiscal 2004 due to new sales to new lottery clients, including the Belgium Lottery and Loto-Québec, and increased sales in the commercial games product line. In addition, sales to a number of existing core lottery clients were higher due to increased order patterns as well as the introduction of new games. As a result, overall lottery volumes exceeded historical averages in Fiscal 2004 by 15%. In addition to the volume increase, overall selling prices were slightly higher. The combination of higher selling prices and increased volume generated increased sales of approximately $13.0 million compared to a similar time period in Fiscal 2004. Offsetting the sales increase was a reduction in sales due to the strengthening of the Canadian dollar. Compared to Fiscal 2004 the Canadian dollar increased in value by approximately 13%, which reduced sales by approximately $7.0 million.

COST OF SALES AND GROSS PROFIT

Cost of sales were $59.2 million for the period. Gross profit was $17.1 million or 22.4%, consistent with the percentages achieved in 2004 and just slightly lower than the first nine months of Fiscal 2005.

SELLING AND ADMINISTRATION EXPENSES

Selling and administration costs were $8.5 million for the period or 11.2% of sales. This level is consistent with 2004 results, although slightly higher than the first nine months of 2005 due to higher levels of professional fees relating to public entity costs compressed into a five month period.

ADJUSTED EBITDA

Adjusted EBITDA was $11.6 million in the period. Adjusted EBITDA margins were 15.2% in the period compared to 16.3% in the first nine months of fiscal 2005 and 16.5% in 2004. The product mix during the period included a higher proportion of lower margin work relative to the overall historical mix of sales. Higher selling and administration costs also lowered the EBITDA margin. On a period-to-period basis the Adjusted EBITDA margin will fluctuate based on sales level and production mix.

AMORTIZATION

Amortization includes amortization of property and equipment and other assets, primarily patents, and totaled $3.0 million in the period. This is consistent with the level of expense in the first nine months of 2005, but lower than the comparable rate for an equivalent time period in Fiscal 2004 due to certain equipment under lease becoming fully depreciated at the end of Fiscal 2004.

INTEREST

Interest expense of $1.1 million was incurred in the period. Higher levels of debt related to the new credit facility entered into as part of the reorganization and offering resulted in the higher interest costs than in the periods prior to August 5, 2005. In addition, to manage the interest rate risk, Pollard LP has entered into interest rate swaps for approximately 90% of the outstanding long-term debt, resulting in higher interest rates relative to historical floating interest rates.

MARK-TO-MARKET GAIN ON FOREIGN CURRENCY CONTRACTS

A non-cash gain of $2.2 million was recorded reflecting the increase in value of the foreign currency contracts used to hedge our net U.S. dollar exposure. No gain or loss was recorded in Fiscal 2004 as the hedging program was not initiated until April 2005.

EMPLOYEE PROFIT SHARING

Employee profit sharing costs were $0.9 million during the period.

INCOME TAXES

Pollard LP is only taxable as it relates to its incorporated subsidiaries and as such, no tax provision is recorded for the direct operations of Pollard LP as these taxes are borne by the partners. The incorporated subsidiaries of Pollard LP incurred an income tax recovery of $0.4 million during the period due to the timing of certain deductions for tax purposes.

NET INCOME

Net income for the period was $10.3 million, which is higher than comparable previous periods due primarily, as discussed above, to the decrease in income taxes and management bonus and the increase in mark-to-market gain on foreign currency contracts.

Distributable cash and distributable cash per unit

Pollard LP generated $9.8 million in distributable cash, or $0.4150 per unit for the period August 5, 2005 to December 31, 2005. This exceeds the target of $0.3858 as established in the final prospectus of the Fund dated July 27, 2005. The increase in distributable cash over the target is due to a higher level of earnings coupled with lower than anticipated cash tax and maintenance capital expenditures. The excess cash will be utilized to maintain future distributions, capital expenditures and investments in working capital.

Analysis of Results
for the Period October 1, 2005 to December 31, 2005

[FINAL QUARTER OF 2005]

SALES

During the period October 1, 2005 to December 31, 2005, Pollard LP achieved sales of $44.6 million. Sales in this period were consistent with the comparable period in 2004. Reductions in sales dollars due to the increasing strength of the Canadian dollar were offset by increased volume of sales to existing lottery customers and new clients. The average Canadian dollar exchange rate recorded during the period was $1.1733 versus the United States dollar.

Selected Financial Information
Fourth Quarter of 2005

[MILLIONS OF DOLLARS]	OCTOBER 1, 2005 TO DECEMBER 31, 2005 [UNAUDITED]
Sales	$44.6
Cost of sales	35.7
Gross Profit	8.9
Expenses	
Selling and administration	5.1
Interest	0.7
Foreign exchange gain	(0.6)
Mark-to-market loss on foreign currency contracts	0.9
Other	(0.3)
Income before undernoted	3.1
Employee profit sharing plan	0.4
	2.7
Income Taxes	
Current	0.3
Future (recovery)	(0.1)
	0.2
Net Income	$2.5
Adjusted EBITDA	$6.2
Distributable Cash	$5.1

COST OF SALES AND GROSS PROFIT

Cost of sales were $35.7 million for the period. Gross profit was $8.9 million or 20.0%, slightly lower than the historical gross margin achieved in 2004 and the first nine months of 2005. Product mix in the period was weighted toward lower margin work. On a quarter-to-quarter basis changes in the product mix and variations in the order quantity from clients can result in short term variations in the gross margin. A portion of the increased volume included sales in the commercial games product line, which were at slightly lower margins.

SELLING AND ADMINISTRATION EXPENSES

Selling and administration costs were $5.1 million for the period or 11.4% of sales. The level of expenses were slightly higher than historically budgeted due to higher levels of professional fees relating to public entity costs compressed into a three month period.

ADJUSTED EBITDA

Adjusted EBITDA was $6.2 million in the period. Adjusted EBITDA margins were 13.9% in the period. Lower gross margin, coupled with higher selling and administration expenses reduced the Adjusted EBITDA margin for the reasons discussed above. On a quarter-to-quarter basis the Adjusted EBITDA margin will fluctuate based on sales level and production mix.

AMORTIZATION

Amortization includes amortization of property and equipment and other assets, primarily patents, and totaled $1.8 million period. This is consistent with the level of expense in the first nine months of 2005, but lower than the comparable rate for an equivalent time period in Fiscal 2004 due to certain equipment under lease becoming fully depreciated at the end of Fiscal 2004.

INTEREST

Interest expense of $0.7 million was incurred in the period. Higher levels of debt related to the new credit facility entered into as part of the reorganization and offering resulted in the higher interest costs than in the periods prior to August 5, 2005.

MARK-TO-MARKET LOSS ON FOREIGN CURRENCY CONTRACTS

A non-cash loss of $0.9 million was recorded reflecting the decrease in value of the foreign currency contracts used to hedge our net U.S. dollar exposure.

EMPLOYEE PROFIT SHARING

Employee profit sharing costs were $0.4 million during the period.

INCOME TAXES

Pollard LP is only taxable as it relates to its incorporated subsidiaries and as such, no tax provision is recorded for the direct operations of Pollard LP as these taxes are borne by the partners. The incorporated subsidiaries of Pollard LP incurred an income tax expense of $0.2 million during the period.

NET INCOME

Net income for the period was $2.5 million, which is consistent with the slightly lower gross profit margin for the three month period discussed above and the loss due to the mark-to-market adjustment for foreign currency contracts.

Summary of Quarterly Results

(UNAUDITED)
(MILLIONS OF DOLLARS)

	OCTOBER 1 TO DECEMBER 31, 2005	AUGUST 5 TO SEPTEMBER 30, 2005	Q3 2005	Q2 2005	Q1 2005	Q4 2004	Q3 2004	Q2 2004	Q1 2004
Sales	$44.5	$31.8	$41.7	$47.0	$42.3	$42.2	$42.9	$42.4	$44.4
Adjusted EBITDA	$6.2	$5.4	$7.4	$7.7	$6.3	$7.4	$7.7	$7.2	$6.0
Net Income (loss)	$2.5	$7.8	$3.3	$2.9	$2.7	($2.3)	$3.1	$2.5	$1.6

NOTES:

(1) As a result of the year end change from October 31 to December 31, the current fourteen month fiscal year includes five quarters, including the period August 5, 2005 to September 30, 2005, and the third quarter 2005 which reflects the period May 1, 2005 to August 4, 2005. All other quarters are three-month periods.

(2) Adjusted EBITDA includes adjustments in the comparative prior period numbers to reflect the operating structure currently in existence and primarily involves adding back the discretionary management bonuses. Therefore Adjusted EBITDA may not be comparable to similar measures presented by other issuers. Management believes the Adjusted EBITDA is a useful complementary measure of cash available for distribution.

(3) Information prior to August 5, 2005 represents the financial information of the business carried on by the predecessor company. Please refer to Note 2 of the consolidated financial statements of Pollard LP.

Fluctuations in Net Income, Adjusted EBITDA and Sales by quarter will vary depending on the timing of contract awards, changes in customer budgets, ticket inventory levels and lottery retail sales. The period August 5, 2005 to September 30, 2005 earned higher adjusted EBITDA margin percentages than historically averaged due to a higher margin product mix sold in the short eight-week period. The following period, October 1, 2005 to December 31, 2005, earned lower adjusted EBITDA margins reflecting a lower margin product mix sold.

In Q4 2004 a discretionary management bonus was accrued relating to the operations for the entire year, which generated a net loss for the quarter. In Q3 2005 a discretionary management bonus was also incurred resulting in lower net income. Net income in the period August 5, 2005 to September 30, 2005, was higher than previous quarters due to the non-cash gain on mark-to-market foreign currency contracts resulting from the hedging program. Previous to Q3 2005 the hedging program did not exist. The period October 1, 2005 to December 31, 2005 includes a non-cash loss on mark-to-market foreign currency contracts from the hedging program.

Liquidity and Capital Resources

CASH FROM OPERATING ACTIVITIES

For the fourteen months ended December 31, 2005, cash flow provided by operating activities was $15.6 million, compared to operating cash flow generated of $12.8 million in the twelve months ended October 31, 2004. Higher net income during Fiscal 2005 was offset by a significant increase in investment in working capital.

Changes in the non-cash component of working capital provided a decrease in cashflow from operations of $8.8 million in Fiscal 2005, compared to a decrease in cashflow of $0.3 million during Fiscal 2004. The $8.8 million net use of cash in 2005 is primarily the result of a decrease in accounts payable due to a reduction in the management bonus payable to nil at December 31, 2005, versus a payable of $8.0 million in 2004.

For the period August 5, 2005 to December 31, 2005 the cash flow from operations was $10.0 million. Net Income generated approximately $10.2 million in cash after adjusting for non-cash items including amortization and mark-to-market adjustments on foreign currency contracts. Investment in non-cash working capital used $0.2 million in cash, principally due to an increase in accounts receivable due to the increase in sales.

CASH USED IN INVESTING ACTIVITIES

Cash used in investing activities was $7.5 million (net) for the fourteen months ended December 31, 2005. Total property, plant and equipment additions during Fiscal 2005 were $8.9 million ($7.7 million expended prior to August 5, which included the purchase of land and building in Winnipeg of $2.4 million and the expansion of the building in Ypsilanti of $2.0 million). Principal payments on the net investment in leases generated $1.2 million.

In the period August 5, 2005 to December 31, 2005, cash used in investing activities was $0.7 (net) reflecting $0.4 million in maintenance capital expenditures, $0.8 million in growth capital expenditures and ongoing regular receipts on the net investment in leases of $0.5 million. Maintenance capital expenditures are made to maintain existing levels of production and service and are funded from operating cash flow. Growth capital expenditures are made to expand Pollard LP's business or generate cost savings and are excluded from the calculation of distributable cash. Growth capital expenditures are incurred only when it is expected that they would ultimately result in increased distributable cash.

Maintenance capital expenditures included miscellaneous manufacturing expenditures and computer equipment and growth capital expenditures relate to the cost of acquiring start up equipment for our new pull-tab Lottery Management Services operation in Saskatchewan and additional manufacturing equipment upgrades. The capital expenditures incurred during August 5, 2005 to December 31, 2005, were in line with the targeted figures as identified in the final prospectus dated July 27, 2005. There are no material capital commitments outstanding.

CASH USED IN FINANCING ACTIVITIES

Cash used in financing activities was $9.4 million for the fourteen months ended December 31, 2005. On August 5, 2005, the Fund completed the offering and private placement, and issued 6,005,538 units. On August 29, 2005, the underwriting group exercised an over-allotment option on the Fund resulting in an additional issuance of 280,162 units. Net cash proceeds of $62.7 million, less $6.2 million cash paid for underwriter's fees and other issuance costs, were used to subscribe for Class A LP units in Pollard LP. As part of the transfer of the business, a distribution of $39.3 million was paid to Amalco.

Also on August 5, 2005, Pollard LP drew down approximately $50.0 million under the new credit facility, paying debt issuance costs of $0.3 million. A portion of the funds raised under the new credit facility was used to repay long-term debt of $6.2 million. In addition, on August 29, 2005, in conjunction with the over-allotment, Pollard LP redeemed 280,162 Class B LP Units from PBL for $2.6 million.

Prior to August 5, the non-controlling interest was redeemed for $8.5 million, financed through an increase in long-term debt.

As at December 31, 2005, Pollard LP had $3.8 million in cash and cash equivalents and available undrawn operating lines of credit of approximately $21.6 million, which will be used to meet future working capital requirements, contractual obligations, capital expenditures and distributions.

Pollard LP's distributions accrue on a monthly basis to holders of record of Class A and Class B LP Units on the last business day of the month and to holders of Class C LP Units on the last business day of each fiscal quarter.

For the period August 5, 2005 to December 31, 2005 the distributions declared per Class A and Class B LP Unit were $0.3858 and the distributions declared on the Class C LP Units were $0.3858. Total distributions declared were $9.1 million. Distributions totaling $2.4 million were accrued as at December 31, 2005 and were paid to the holders of the Class A, Class B and Class C LP Units on January 16, 2006.

CREDIT FACILITIES

On August 5, 2005, in conjunction with the business transfer, Pollard LP and its subsidiaries entered into a new credit facility, the proceeds of which were utilized in part to repay the existing credit facility and in part to fund the transfer of the business from Amalco.

Pollard LP's credit facilities include a demand operating facility and a committed term bank loan facility. The demand operating facility includes up to $15.0 million for its Canadian operations and up to $9.3 million (US$8.0 million) for its U.S. operations. The committed term bank loan facility provides loans of up to $32.0 million for its Canadian operations and up to $17.2 million (US$14.8 million) for its U.S. subsidiaries. Borrowings under these credit facilities bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2005, the balances outstanding under the demand operating facilities, other than letters of credit of $2.7 million, were nil and the committed term bank loan facilities were fully drawn.

At December 31, 2005, Pollard LP had entered into interest rate swaps to fix the interest rate on approximately 90% of the outstanding long-term debt.

Pollard LP's credit facilities are secured by a first security interest in all of the present and after acquired property of Pollard LP and its operating subsidiaries. The term bank loan facility is prepayable without penalties. Under the terms of the agreement, the term facility is committed for a one-year period, renewable August 5, 2006. If the term facility is not renewed, the term loans are repayable two years after the term loan expiry date. As such, each term facility has effectively a three-year term expiring August 5, 2008 with no principal payments required prior to expiration.

Under the terms and conditions of the credit facility agreement Pollard LP is required to maintain certain financial covenants including working capital ratios, debt to earnings before interest, taxes, depreciation and amortization ("EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2005, Pollard LP is in compliance with all financial covenants.

PARTNERS' CAPITAL

On August 5, 2005, Amalco transferred its operating assets and liabilities to Pollard LP, with a book value of $35.3 million, in exchange for promissory notes of $60.5 million and 14,006,146 Class B LP Units and 3,531,474 Class C LP Units, which have an estimated combined fair value of $172.2 million.

As part of the offering and a private placement, 6,005,538 Class A LP Units, equal to 25.5% of the outstanding limited partnership interests of Pollard LP, were issued indirectly to the Fund in exchange for cash consideration of $60.1 million. The acquisition of the limited partnership units occurred through the Trust, a wholly-owned subsidiary of the Fund.

On August 29, 2005, the underwriting group exercised an over-allotment option on the Fund resulting in the indirect purchase by the Fund of 280,162 additional Class A LP Units from Pollard LP for net proceeds of $2.6 million. In addition, on August 29, 2005, Pollard LP redeemed 280,162 Class B LP Units from Amalco for $2.6 million. After the redemption, 13,725,984 Class B LP Units remained outstanding.

CONTRACTUAL OBLIGATIONS

Pollard LP and its subsidiaries rent a premise and equipment under long-term operating leases. The following is a schedule by year of commitments and contractual obligations outstanding:

(MILLIONS OF DOLLARS)

	TOTAL	<1YEAR	1-3 YEARS	4-5 YEARS
Long-term debt	$49.2	–	$49.2	–
Operating leases	$1.0	$0.8	$0.2	–
Total	$50.2	$0.8	$49.4	–

Pollard LP has entered into a worldwide license agreement with Oberthur Gaming Technologies Inc. ("OGT") for print technology covered by a certain OGT patent for the remaining life of the patent of approximately 10 years. The amount and terms of future payments, if any, under the license agreement will be based on the outcome of litigation currently underway in the United States between OGT and Scientific Games, International, Inc. to which Pollard LP is not a party. Depending on the outcome of this litigation, it is possible that no payments may be required under the license agreement. This agreement contains a provision that in no case will the total of all future payments under the license be greater than a maximum of $3.25 million.

LONG-TERM INCENTIVE PLAN

The officers of Pollard Banknote Limited and key employees of Pollard LP are eligible to participate in the long term incentive plan of the Fund (the "LTIP"). The purpose of the LTIP is to provide eligible participants with compensation opportunities that will enhance Pollard LP's ability to attract, retain and motivate key personnel and reward officers and key employees for significant performance that results in Pollard LP exceeding its per Unit distributable cash targets. Pursuant to the LTIP, Pollard LP has set aside a pool of funds based upon the amount, if any, by which Pollard LP's consolidated distributable cash per fully-diluted Unit exceeds certain defined distributable cash targets. Pollard LP will provide for either cash payments or the purchase of Units in the market with this pool of funds.

The LTIP will be administered by the management of Pollard LP. The Compensation Committee, on the recommendation of the management of Pollard LP, will determine: (i) those individuals who will participate in the LTIP, (ii) the level of participation of each participant; and (iii) the time or times when LTIP awards will be paid to each participant.

The LTIP provides for awards that may be earned based on the amount by which distributable cash per annum per Unit exceeds a base threshold per annum equal to the distribution target. The percentage amount of that excess which forms the LTIP incentive pool will be determined in accordance with the table below:

Percentage by which distributable cash per fund unit exceeds the base threshold[1]	Maximum proportion of excess distributable cash available for LTIP payments
5% or less	10%
Over 5% to 10%	15% of any excess over 5% to 10%
Over 10%	20% of any excess over 10%

1 Annualized distributable cash target is $0.9504 per unit. Annualized for fiscal periods of less than 12 months.

The base threshold is subject to adjustment by the compensation committee. For purposes of the LTIP, distributable cash will be calculated in a manner consistent with the definition of EBITDA set forth in the prospectus.

The LTIP may not be amended or terminated for a period of one year following Closing, except amendments made with the consent of the affected participants, technical or administrative amendments or in certain other circumstances.

During the period August 5, 2005 to December 31, 2005, a provision for LTIP was accrued for $0.1 million as Pollard LP exceeded the annualized distributable cash target.

PENSION OBLIGATIONS

Pollard LP sponsors four non-contributory defined benefit pension plans, of which three are final pay plans and one is a flat benefit plan. As of December 31, 2005, the aggregate fair value of the assets of Pollard LP's defined benefit pension plans was $10.8 million, while the accrued benefit plan obligation was $14.9 million, resulting in an aggregate deficit of $4.1 million. Pollard LP's total annual funding contribution for all pension plans in 2006 is expected to be approximately $1.5 million, not materially different from 2005, so long as long-term expectations of fund performance for the defined benefit plans are met.

The aggregate deficit increased in 2005 due to the requirement for accounting purposes to revalue the accrued benefit obligations using mandated long-term bond rates. The reduction over time in this mandated discount rate has resulted in a large increase in the value of the accrued benefit obligation for accounting purposes at December 31, 2005. The change in value of the accrued benefit obligation does not impact the funding obligations of the plans. Currently the entire investment portfolio for the plans is invested in Guaranteed Investment Certificate's. During 2006 Pollard LP will be moving its assets into more actively managed balanced funds, which, over time, are expected to increase the investment returns.

OFF-BALANCE SHEET ARRANGEMENTS

In addition to the operating leases described previously, Pollard LP has the following off-balance sheet arrangements:

INTEREST RATE SWAP AGREEMENTS

Pollard LP entered into an interest rate swap agreement and effectively converted variable rate debt obligations in the amount of $27.0 million with underlying floating rates of 2.92% plus applicable credit margin to a fixed rate of 3.67% plus applicable credit margin.

One of Pollard LP's U.S. subsidiaries entered into an interest rate swap agreement and effectively converted variable rate debt obligations in the amount of $17.2 million (US$14.8) with underlying floating rates of 4.01% plus applicable credit margin to a fixed rate of 4.67% plus applicable credit margin.

The counter party to the interest rate swaps is a major Canadian bank and the fair values of the interest rate swaps as at December 31, 2005, is an asset of $0.2 million and is based on the amount at which they could be settled. Consistent with hedge accounting this asset is not recorded in the financial statements.

Related Party Transactions

On November 28, 2005 Pollard LP settled certain litigation relating to patent infringement. Pursuant to the settlement, the suit was dismissed in consideration of a cash payment of $1.75 million. In accordance with the indemnification obligations entered into at the time of the issuance of units on August 5, 2005, Amalco assumed full responsibility for the payment. Accordingly there is no effect on the results of operations or the distributable cash of Pollard LP.

Critical Accounting Policies and Estimates

The preparation of the financial statements in conformity with Canadian GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenue and expenses during the reporting period. Management of Pollard LP regularly reviews its estimates and assumptions based on historical experience and various other assumptions that it believes would result in reasonable estimates given the circumstances. Actual results could differ from those estimates under different assumptions. The following is a discussion of accounting policies, which require significant management judgment and estimation.

LEASES:

In some instances, one of Pollard LP's subsidiaries will lease vending machines to third-party customers. Depending on the specific terms contained in the lease agreements, the lease is either classified as an operating lease or capitalized as a sales-type lease.

Pollard LP's subsidiary's leasing operations consist principally of the leasing of Instant Ticket Vending Machines (ITVM) with state lotteries and Pull Tab Vending Machines (PTVM) with various private establishments. These leases are classified as sales-type leases. The ITVM and PTVM leases have terms of five and four years, respectively. The net investment in sales-type leases consists of the present value of the future minimum lease payments. Interest revenue is recognized as a constant percentage return on the net investment.

GOODWILL:

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of the U.S. subsidiaries and is not amortized. Goodwill is subject to an annual impairment review to ensure its fair value remains greater than, or equal to, book value.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized. Pollard LP performs the impairment tests on an annual basis. No Goodwill has been deemed to be impaired. In future years, the annual impairment test will be performed on June 30.

FINANCIAL INSTRUMENTS:

Pollard LP may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. Pollard LP does not engage in the trading of these derivative financial instruments for profit.

Pollard LP may enter into interest rate swap agreements in order to limit exposure to increases in interest rates and fix interest rates on certain portions of long-term debt. Pollard LP applies hedge accounting for the interest rate swap agreements. Payments and receipts under interest rate swap agreements designated as effective hedges are recognized as adjustments to interest expense on long-term debt in the same period that the underlying hedged transactions are recognized. Pollard LP formally documents the relationship between the hedging instrument and the hedged item, as well as the nature of the specific risk exposure being hedged and the intended term of the hedging relationship. The effectiveness of the hedge is assessed at inception and throughout the term of the hedge. Any hedging transactions that do not qualify for hedge accounting are marked-to-market at each period end with any resulting gains or losses recorded in earnings.

Pollard LP may enter into foreign currency forward contracts to limit exposure on certain recognized assets or liabilities, firm commitments, or foreign currency risk in an unrecognized firm commitment. The foreign currency contracts are recognized in the balance sheet and measured at fair value, with changes in fair value recognized currently in the statement of income.

INCOME TAXES:

Pollard LP is not a taxable entity, and accordingly, no provision for income taxes has been included in the consolidated financial statements since all income, deductions, gains, losses and credits are reportable on the tax return of the partners.

Pollard LP 's incorporated subsidiaries are taxable entities and as such, income taxes are recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized. Valuation allowances are established when necessary to reduce the future tax assets to the amounts expected to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment.

Future Changes in Accounting Policies

On January 27, 2005, the Canadian Institute of Chartered Accountants ("CICA") issued three new accounting standards: Handbook Section 1530, Comprehensive Income, Handbook Section 3855, Financial Instruments – Recognition and Measurement, and Handbook Section 3865, Hedges. These standards will be effective for us on January 1, 2007. The impact of implementing these new standards on our Consolidated Financial Statements is not yet determinable as it will be dependent on our outstanding positions and their fair values at the time of transition.

COMPREHENSIVE INCOME

As a result of adopting these standards, a new category, Accumulated Other Comprehensive Income, will be added to Partners' Capital on the Consolidated Balance Sheets. Major components for this category will include unrealized gains and losses on financial assets classified as available-for-sale, unrealized foreign currency translation amounts, net of hedging, arising from self-sustaining foreign operations, and changes in the fair value of the effective portion of cash flow hedging instruments.

FINANCIAL INSTRUMENTS – RECOGNITION AND MEASUREMENT

Under the new standard, all financial instruments will be classified as one of the following: Held-to-maturity, Loans and receivables, Held-for-trading or Available-for-sale. Financial assets and liabilities held-for-trading will be measured at fair value with gains and losses recognized in Net Income. Financial assets held-to-maturity, loans and receivables and financial liabilities other than those held-for-trading, will be measured at amortized cost. Available-for-sale instruments will be measured at fair value with unrealized gains and losses recognized in Other Comprehensive Income. The standard also permits designation of any financial instrument as held-for-trading upon initial recognition.

HEDGES

This new standard specifies the criteria under which hedge accounting can be applied and how hedge accounting can be executed for each of the permitted hedging strategies: fair value hedges, cash flow hedges and hedges of a foreign currency exposure of a net investment in a self-sustaining foreign operation. In a fair value hedging relationship, the carrying value of the hedged item is adjusted by gains or losses attributable to the hedged risk and recognized in Net Income. This change in fair value of the hedged item, to the extent that the hedging relationship is effective, is offset by changes in the fair value of the derivative. In a cash flow hedging relationship, the effective portion of the change in the fair value of the hedging derivative will be recognized in Other Comprehensive Income. The ineffective portion will be recognized in Net Income. The amounts recognized in Accumulated Other Comprehensive Income will be reclassified to Net Income in the periods in which Net Income is affected by the variability in the cash flows of the hedged items. In hedging a foreign currency exposure of a net investment in a self-sustaining foreign operation, foreign exchange gains and losses on the hedging instruments will be recognized in Other Comprehensive Income.

Industry Risks and Uncertainties

Pollard LP is exposed to a variety of business and industry risks. The industry risks have not changed materially from those disclosed in the final prospectus of the Fund dated July 27, 2005 and available at www.sedar.com. A summary of the major risks faced by Pollard LP is noted below.

DEPENDENCE ON MAJOR CUSTOMERS

Pollard LP's 10 largest customers accounted for approximately 61% of its revenue during the fourteen months ended December 31, 2005 ("Fiscal 2005"). Pollard LP's largest customer accounted for 16% of Pollard LP's revenues during Fiscal 2005. As is customary in the industry, Pollard LP does have long-term contracts with most of its customers. However, most allow the customer

to cancel the contract at will and none guarantee volumes or order levels. A significant reduction of purchases by any of Pollard LP's largest customers could have a material adverse effect on Pollard LP's business, financial condition, liquidity and results of operations including the amount of cash available for distributions to Unitholders.

FUTURE ACQUISITION AND INTEGRATION RISKS

To grow by acquisition, Pollard LP must identify and acquire suitable acquisition candidates at attractive prices and successfully integrate any acquired businesses with its existing operations. If the expected synergies from acquisitions do not materialize or Pollard LP fails to successfully integrate any new businesses into its existing business, Pollard LP's financial performance could be significantly impacted. To the extent that businesses acquired by Pollard LP or their prior owners failed to comply with or otherwise violated applicable laws, Pollard LP, as a successor owner, may be financially responsible for these violations.

In connection with future acquisitions by Pollard LP, there may be liabilities that Pollard LP failed or was unable to discover in its due diligence prior to the consummation of the acquisition. The discovery of any material liabilities could have a material adverse effect on Pollard LP's business, financial condition, liquidity and results of operations or future prospects.

DEPENDENCE ON KEY PRODUCTS

Lottery tickets accounted for approximately 76% of Pollard LP's Fiscal 2005 revenues. Pollard LP's financial results and condition are substantially dependent on the continued success and growth in sales of this product and the profitability of such sales. Competitive efforts by other manufacturers of similar or substitute products, shifts in consumer preferences or the introduction and acceptance of alternative product offerings could have a material adverse effect on Pollard LP's business, financial condition, liquidity and results of operations, and the amount of cash available for distribution to Unitholders.

EXCHANGE RATES

A significant portion of Pollard LP's revenues and expenses, principally related to its U.S. operations, are denominated in U.S. dollars. Furthermore, although certain raw materials may be purchased in Canadian dollars, they may have inputs that are denominated in foreign currencies. Any changes in the exchange rate between the Canadian dollar and these foreign currencies could have a material effect on the results of Pollard LP.

Pollard LP's distributions to partnership Unitholders are denominated in Canadian dollars. As a result, the distributions will be exposed to currency exchange rate risk. For the purposes of financial reporting by Pollard LP, any change in the value of the Canadian dollar against the U.S. dollar during a given financial reporting period would result in a foreign exchange loss or gain on the translation of any U.S. dollar monetary assets and liabilities. Further, Pollard LP's reported earnings could fluctuate materially as a result of revenues and expenses denominated in U.S. dollars under Canadian GAAP.

Pollard LP has in place hedging arrangements to mitigate exchange rate fluctuation risk, but there can be no assurance that changes in the currency exchange rate will not have a material adverse effect on Pollard LP or on its ability to maintain a consistent level of distributions in Canadian dollars.

INTEREST RATES

Pollard LP has certain floating rate loans and may be negatively impacted by increases in interest rates, the effects of which would be to reduce the amount of cash available for distributions to the Unitholders.

Pollard LP has in place hedging arrangements to mitigate interest rate fluctuation risk, but there can be no assurance that changes in interest rates will not have a material adverse effect on Pollard LP or on its ability to maintain a consistent level of distributions in Canadian dollars.

COMPETITION

The instant ticket and charitable gaming business is highly competitive, and Pollard LP faces competition from a number of domestic and foreign instant ticket manufacturers and other competitors. Pollard LP currently has three instant ticket competitors in North America: Scientific Games International, Inc, Oberthur Gaming Technologies, Inc., and Creative Games International, Inc. Charitable gaming competitors include a number of manufacturers such as Arrow International, Inc., International Gamco, Inc. and Universal Manufacturing, Inc.

Some of Pollard LP's competitors have longer operating histories, greater name recognition, larger customer bases and greater financial, technical and marketing resources than Pollard LP. These resources may allow them to respond more quickly than Pollard LP can to new or emerging technologies and to changes in customer requirements. It may also allow them to devote greater resources than Pollard LP can to the development, promotion and sale of their products. Pollard LP's competitors may also engage in more extensive research and development, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies. The market for Pollard LP's products is highly competitive at both the lottery and charitable gaming levels. Pollard LP expects competition to continue to be intense because of capacity in its markets. Pollard LP also faces competition from emerging and existing lottery and charitable gaming products, such as internet gaming products and video lottery terminals. Competition from these and other gaming products may weaken demand for Pollard LP's products.

INCOME AND OTHER TAXES

Pollard LP is expected to be subject to capital taxes and its incorporated subsidiaries are subject to Canadian federal and U.S. federal, state and withholding taxes. As taxing regimes change their tax basis and rates or initiate reviews of prior tax returns, Pollard LP could be exposed to increased costs of taxation, which would reduce the amount of funds available to distribute to Unitholders.

LICENSING AND REGULATORY REQUIREMENTS

Pollard LP is subject to regulation in most jurisdictions in which its bingo, bingo related products (including pull tabs) are sold or used by persons or entities licensed to conduct gaming activities. The gaming regulatory requirements vary from jurisdiction to jurisdiction and licensing, other approval or finding of suitability processes with respect to Pollard LP, its personnel and its products, can be lengthy and expensive. Many jurisdictions have comprehensive licensing, reporting and operating requirements with respect to the sale and manufacture of bingo and bingo related products, including bingo paper and pull tab tickets. These licensing requirements have a direct impact on the conduct of the day to day operations of Pollard LP. Generally, gaming regulatory authorities may deny applications for licenses, other approvals or findings of suitability for any cause they may deem reasonable. There can be no assurance that Pollard LP, its products or its personnel will receive or be able to maintain any necessary gaming licenses, other approvals or findings of suitability. The loss of a license in a particular jurisdiction will prohibit Pollard LP from selling products in that jurisdiction and may prohibit Pollard LP from selling its products in other jurisdictions. The loss of one or more licenses held by Pollard LP could have an adverse effect on the business.

Certain jurisdictions require extensive personal and financial disclosure and background checks from persons and entities beneficially owning a specific percentage (typically five percent or more) of a vendor's securities. The failure of beneficial owners of Pollard LP's securities to submit to background checks and provide such disclosure could result in the imposition of penalties upon these beneficial owners and could jeopardize the award of a lottery contract to Pollard LP or provide grounds for termination of an existing lottery contract.

INTELLECTUAL PROPERTY

Pollard LP's commercial success depends, in part, on its ability to secure and protect intellectual property rights that are important to its business, including patent, trademark, copyright, and trade secret rights, to operate without infringing third party intellectual property rights, and to avoid having third parties circumvent the intellectual property rights that Pollard LP owns or licenses. In particular, the patents and trademarks Pollard LP owns or licenses may not be valid or enforceable. In addition, Pollard LP cannot be certain that its proprietary technology affords a competitive advantage, does not infringe third party rights, or will not need to be altered in response to competing technologies. Pollard LP also cannot be certain that technologies developed in the future will be the subject of valid and enforceable intellectual property rights.

In addition, litigation may be necessary to determine the scope, enforceability and validity of third party intellectual property rights or to establish Pollard LP's intellectual property rights. Regardless of merit, any such litigation could be time consuming and expensive, divert management's time and attention, subject Pollard to significant liabilities, require Pollard LP to enter into costly royalty or licensing agreements, or require Pollard LP to modify or stop using intellectual property that it owns or licenses.

Financial Instruments

Pollard LP is exposed to financial risks that arise from fluctuations in interest rates and foreign exchange rates and the degree of volatility of these rates. Pollard LP uses financial instruments, from time to time, to manage these risks.

RISK EXPOSURE

MARKET RISK:

Pollard LP sells a significant portion of its products to the United States and to international customers where sales are denominated in U.S. dollars. In addition, Pollard LP operates two manufacturing sites in the U.S. and purchases a significant portion of its goods denominated in U.S. dollars. These activities give rise to exposure to market risk from changes in foreign exchange rates. Foreign currency contracts are used to mitigate these risks.

INTEREST RATE RISK:

Pollard LP is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments. Interest rate swap agreements are used to mitigate this risk.

RISK MANAGEMENT

FOREIGN CURRENCY CONTRACTS:

Pollard LP utilizes a number of tools to manage its foreign currency risk including sourcing its manufacturing facilities in the U.S. and sourcing other cost of goods sold in U.S. dollars.

In order to manage Pollard LP's net exposure to exchange rate fluctuations on United States dollar denominated cash flow, Pollard LP has entered into foreign currency contracts to exchange US$3.0 million each month for approximately $3.6 million for 24 consecutive months from January, 2006 to December, 2007. The foreign currency contracts at December 31, 2005, are recognized in the balance sheet and measured at fair value, which at December 31, 2005, represented an asset of $4.1 million. (October 31, 2004 – nil). As at December 31, 2005, a $0.01 strengthening in the value of the Canadian dollar in relation to the U.S. dollar over the course of a twelve month period would reduce sales by approximately $1.0 million, reduce cost of goods sold by approximately $0.6 and not have a material impact on EBITDA or earnings due to the hedge program in place.

INTEREST RATE SWAPS:

Pollard LP uses interest rate swap agreements in order to fix interest rates on approximately 90% of long-term debt. The interest rate swap agreement entitles Pollard LP and one of its subsidiaries to receive interest at floating rates and pay interest at a fixed rate. See discussion under "Off-balance Sheet Arrangements" for details of the interest rate swaps. As a result, a 1% change in interest rates would not have a material impact on the financial results of Pollard LP.

Use of Non-GAAP Financial Measures

References to "EBITDA" is to earnings before interest, income taxes and amortization and "Adjusted EBITDA" is to EBITDA adjusted for certain non-recurring items, principally discretionary historical management bonuses. References to "Distributable Cash" is to cash available for distribution to unitholders. Management views distributable cash as an operating performance measure, as it is a measure generally used by Canadian income funds as an indicator of financial performance. Distributable cash is important as it summarizes the funds available for distribution to unitholders. As the Fund and Pollard LP will distribute substantially all of its cash on an ongoing basis and since EBITDA is a metric used by many investors to compare issuers on the basis of the ability to generate cash from operations, management believes that, in addition to net income, EBITDA, Adjusted EBITDA and distributable cash are useful supplementary measures.

EBITDA, Adjusted EBITDA, distributable cash, maintenance capital expenditures and growth capital expenditures are not measures recognized under GAAP and do not have standardized meanings prescribed by GAAP. Therefore, these measures may not be comparable to similar measures presented by other entities. Investors are cautioned that EBITDA and Adjusted EBITDA should not be construed as an alternative to net income or loss determined in accordance with GAAP as indicators of the Fund's and Pollard LP's performance or to cash flows from operating, investing and financing activities as measures of liquidity and cash flows.

Outlook

The outlook for 2006 continues to be positive, with sales, production and distributable cash levels expected to meet or exceed the levels targeted in the final prospectus of the Fund dated July 27, 2005.

The instant ticket market continues to show growth consistent with the historical growth rates seen during the last decade. Preliminary information relating to the United States market for 2005 suggest retail sales value of instant tickets grew 14% over 2004. While retail sales growth does not necessarily translate directly into the same growth rate at the manufacturing level, the volume of instant tickets being produced clearly is continuing to grow at a healthy pace.

In North America one new lottery, North Carolina, is expected to begin operations in 2006. The majority of the growth in instant tickets, however, will be generated by existing lotteries growing their instant ticket programs through increased and varied game choices, higher prize payouts, higher price points and increasingly sophisticated product offerings including licensed games, extended play options and other expanded gaming options.

As a result of this strong growth, instant tickets continue to increase in importance to lotteries relative to other product lines such as Lotto games. Instant ticket sales outside the United States continue to grow, although not as dramatically. These overall growth rates are expected to continue in 2006.

Due to continued growth in sales from existing customers and integration of new customers such as the Belgium Lottery and Loto-Québec, Pollard Banknote's sales volumes for the first half of 2006 are expected to continue to exceed historical levels. New opportunities to bid on available lottery contracts are ongoing and Pollard Banknote plans to continue to aggressively bid on this work in order to continue to increase market share.

On February 8, 2006, it was announced that Pollard Banknote won a secondary contract to provide instant tickets to the New York Lottery. Prior to this announcement Pollard Banknote was the primary supplier for this contract. With this expected transition to secondary position in June 2006, sales volumes for that contract will decline. The nature of the contract allows the Lottery the ability to increase or decrease the volumes allocated to the primary and secondary suppliers as a result of ongoing game by game proposals, so it is difficult to estimate in advance the ultimate impact on Pollard Banknote's revenue. However, with the continued growth in sales to existing core clients and ongoing development of new work, we expect the impact of the reduced New York work to be significantly mitigated. Pollard Banknote continues to be the sole source provider for the New York extended play instant ticket product line under a contract that, has an initial term which expires September 2007, with further extensions available until September 2009.

As a more mature industry, the overall charitable gaming market continues to generate volume levels consistent with recent years. Recent consolidation among other industry manufacturers in early 2006 has resulted in new opportunities for Pollard Banknote to increase market share in this sector, particularly for bingo paper. Order levels for bingo paper have increased in the first two months of 2006 relative to 2005, and this trend is expected to continue. Growth in Pollard Banknote's pull-tab sales, while not as strong as bingo paper, is expected to increase due to the complimentary nature of pull-tab product with sales of bingo paper.

With the completion of the development of the second generation Instant Ticket Vending Machine ("ITVM"), 2006 will see this exciting new product move into the production phase. Future sales of the ITVM are dependent upon the timing of Requests For Proposals from the various Lottery organizations. However, as these opportunities occur, Pollard Banknote will be able to aggressively compete with a new, state-of-art ITVM.

Pollard Banknote continues to expand ancillary product offerings including increasing the stable of licensed product choices, actively pursuing additional Lottery Management Service opportunities as well as ongoing marketing of proprietary products.

Pollard Banknote will continue to identify and review acquisition targets within the lottery and charitable gaming industry, consistent with its overall strategy. Any acquisition must be accretive to the unit holders and fit within the overall objectives of Pollard Banknote.

Pollard Banknote believes that its credit facilities and ongoing cash flow from operations will be sufficient to allow it to meet ongoing requirements for investment in capital expenditures, working capital and distributions at existing business levels.

Disclosure Controls and Procedures

Under Multilateral Instrument 52-109 "Certification of Disclosure in Issuers' Annual and Interim Filings", issuers are required document the conclusions of the Chief Executive Officer and Chief Financial Officer (the "Certifying Officers") regarding the effectiveness of the disclosure controls and procedures. Pollard LP's management, with the participation of the Certifying Officers of Pollard LP have concluded that the disclosure controls and procedures as defined in Multilateral Instrument 52-109 are effective at providing reasonable assurance of achieving the disclosure objectives.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all the information contained in the annual report of Pollard Banknote Income Fund (the "Fund") are the responsibility of management and have been approved by the Board of Trustees. Financial and operating data elsewhere in the annual report is consistent with the information contained in the financial statements. The financial statements and all other information have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

In fulfilling its responsibilities, management of the Fund has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparing the financial statements. The Board of Trustees of the Fund carries out its responsibility for the financial statements through the Audit Committee. The Audit Committee reviews the Fund's annual consolidated financial statements and recommends their approval by the Board of Trustees. The auditors have full access to the Audit Committee with and without management present.

The consolidated financial statements have been audited by KPMG LLP Chartered Accountants, whose opinion is contained in this annual report.

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Robert Rose
CHIEF FINANCIAL OFFICER

March 8, 2006

AUDITORS' REPORT

To the Trustees of Pollard Banknote Income Fund

We have audited the consolidated balance sheet of Pollard Banknote Income Fund (the"Fund") as at December 31, 2005 and the consolidated statements of income, unitholders' equity and cash flows for the period from June 29, 2005, date of formation, to December 31, 2005. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2005 and the results of its operations and its cash flows for the period from June 29, 2005 to December 31, 2005 in accordance with Canadian generally accepted accounting principles.

KPMG LLP
CHARTERED ACCOUNTANTS

Winnipeg, Canada
March 8, 2006

Consolidated Statement of Income

[IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS]
PERIOD FROM JUNE 29, 2005, DATE OF FORMATION, TO DECEMBER 31, 2005

Equity income from investment in Pollard Holdings Limited Partnership (note 6)	$	2,005
Administrative expenses		(74)
Net income for the period	$	1,931
Basic and diluted earnings per unit	$	0.31
Weighted average number of Fund Units outstanding		6,240,573

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheet

(IN THOUSANDS OF DOLLARS)
DECEMBER 31, 2005

Assets		
Distribution receivable	$	498
Investment in Pollard Holdings Limited Partnership (note 3)		62,213
	$	62,711
Liabilities		
Accounts payable	$	19
Distribution payable to unitholders (note 4)		498
Unitholders' Equity		
Unitholders' equity (note 5)		62,194
Contingent liabilities (note 8)		
	$	62,711

See accompanying notes to consolidated financial statements.

On behalf of the Board of Trustees:

D.C. Crewson
TRUSTEE

Gary Filmon
TRUSTEE

Consolidated Statement of Unitholders' Equity

(IN THOUSANDS OF DOLLARS)
PERIOD FROM JUNE 29, 2005, DATE OF FORMATION, TO DECEMBER 31, 2005

Unitholders' equity, June 29, 2005, date of formation	$	3
Issuance of units (note 5):		
Issued on August 5, 2005		60,055
Issued on August 29, 2005		2,634
Redemption of originating units on August 5, 2005 (note 5)		(3)
Net income for the period		1,931
Distributions declared during the period		(2,426)
Unitholders' equity, December 31, 2005	$	62,194

See accompanying notes to consolidated financial statements.

POLLARD BANKNOTE INCOME FUND

Consolidated Statement of Cash Flows

(IN THOUSANDS OF DOLLARS)
PERIOD FROM JUNE 29, 2005, DATE OF FORMATION, TO DECEMBER 31, 2005

Cash provided by (used in):		
Operating activities:		
Net income for the period	$	1,931
Items not involving cash:		
Equity income from investment in Pollard Holdings Limited Partnership		(2,005)
Change in non-cash operating working capital		19
Distributions received on Class A LP Units of Pollard Holdings Limited Partnership		1,983
		1,928
Financing activities:		
Net proceeds on issuance of units		62,689
Issuance of originating units		3
Redemption of originating units		(3)
Distributions paid to unitholders		(1,928)
		60,761
Investing activities:		
Investment in Pollard Holdings Limited Partnership		(62,689)
Change in cash, being cash, beginning and end of period	$	–

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)
PERIOD FROM JUNE 29, 2005, DATE OF FORMATION, TO DECEMBER 31, 2005

1. THE FUND:

Pollard Banknote Income Fund (the "Fund") is an unincorporated, open-ended, limited purpose trust established under the laws of the Province of Ontario by a Declaration of Trust dated June 29, 2005. It is intended that the Fund will qualify as a "mutual fund trust" for the purposes of the Income Tax Act (Canada) and has been established to acquire and hold indirectly an investment in Pollard Holdings Limited Partnership ("Pollard LP"). Pollard LP's principal business activities include the manufacture and sale of lottery and gaming products. The Fund commenced operations on August 5, 2005 and had no operating activities for the period from formation on June 29, 2005 to August 5, 2005.

The Fund is entirely dependent on distributions from Pollard LP to make its own distributions.

The consolidated financial statements should be read in conjunction with the consolidated financial statements of Pollard LP for the period ended December 31, 2005.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(a) Basis of presentation:

These consolidated financial statements include the accounts of Pollard Banknote Income Fund and its wholly-owned subsidiary, Pollard Banknote Trust (the "Trust").

All inter-company transactions have been eliminated.

(b) Investment:

The investment in Class A Limited Partnership Units of Pollard LP is accounted for using the equity method of accounting whereby the investment was initially recorded at cost and the carrying value is adjusted by the Fund's pro rata share of post acquisition income of Pollard LP computed using the consolidation method. Distributions received or receivable from Pollard LP reduce the carrying value of the investment. The Fund's investment in Pollard LP is reviewed for impairment if conditions arise that indicate that the investment may be impaired. If there is a loss in the value of the investment that is other than a temporary decline, the investment would be written down to fair value.

(c) Distributions:

Distributions from the Fund's investment in Pollard LP are recorded when declared. Distributions payable by the Fund to its unitholders are recorded when declared.

(d) Income taxes:

The Fund is a mutual fund trust for income tax purposes. As such, the Fund is only taxable on any amount not allocated to unitholders. The Fund does not recognize any future income tax assets or liabilities on temporary differences in the Fund because the Fund intends to distribute or designate to its unitholders all, or virtually all, of its taxable income and taxable gains. The Fund intends to continue to meet the requirements under the Income Tax Act and there is no indication that the Fund will fail to meet those requirements.

(e) Earnings per unit:

Basic earnings per unit is computed by dividing net income by the weighted average units outstanding during the reporting period. Diluted earnings per unit is calculated based on the weighted average number of units outstanding during the period, plus the effect of dilutive unit equivalents such as options. At December 31, 2005 there were no dilutive unit equivalents outstanding.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(f) Financial instruments:

Distributions receivable, accounts payable and distributions payable are reflected in the financial statements at carrying value, which approximates fair value because of the short-term maturity of these financial instruments.

(g) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from those estimates.

3. INVESTMENT IN POLLARD HOLDINGS LIMITED PARTNERSHIP:

On August 5, 2005, Trust subscribed for 6,005,538 Class A Limited Partnership ("LP") Units of Pollard LP (a 25.5 percent ownership interest). On August 29, 2005, Trust purchased a further 280,162 Class A LP Units of Pollard LP (a further 1.2 percent ownership interest). The resulting 26.7 percent interest in Pollard LP entitles Trust to 26.7 percent of the cash distributions of Pollard LP provided that those distributions are at least equal to $0.0792 per Class A LP Unit, per month. In the event of a shortfall, Trust is entitled to a percentage of cash distributions based on the ratio of its Class A LP Units to total Class A and Class B LP Units outstanding.

As of December 31, 2005, the Fund has an interest of approximately 26.7 percent in the consolidated operations of Pollard LP. The Fund also has a 26.7 percent interest in the General Partner of Pollard LP which is carried at a nominal amount.

The investment in Pollard LP is summarized as follows:

Balance, June 29, 2005	$	–
Initial subscription for investment on August 5, 2005		60,055
Additional subscription for investment on August 29, 2005		2,634
Equity interest for the period from August 5, 2005 to December 31, 2005		2,005
Distributions received and receivable		(2,481)
Balance, December 31, 2005	$	62,213

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

3. INVESTMENT IN POLLARD HOLDINGS LIMITED PARTNERSHIP (CONTINUED):

The purchase price of the investment in Pollard LP exceeds the underlying carrying amount of the net assets of Pollard LP. The allocation of the excess purchase price to assets as at August 5, 2005 is as follows:

	BOOK VALUE	FAIR VALUE	PURCHASE PRICE EXCESS
Finite life:			
Customer assets	$ –	$ 69,831	$ 69,831
Patents	321	14,832	14,511
Computer software	–	857	857
Indefinite life:			
Assembled workforce	–	13,993	13,993
Goodwill	6,250	106,938	100,688
	$ 6,571	$ 206,451	$ 199,880
26.7% of purchase price excess			$ 53,368

The Fund's proportionate share of amortization of finite life intangible assets amounts to $739 (note 6) as outlined below.

The excess amount allocated to customer assets is amortized on a straight-line basis over the remaining life of the relationships with customers. Management has calculated the weighted average life for amortization of these relationships to be 16 years. The amortization of the customer assets for the period August 5, 2005 to December 31, 2005 amounted to $479.

The excess amount allocated to patents is amortized on a straight-line basis over the remaining life of the patents. Management has calculated the weighted average life for amortization of the patents to be 6 years. The amortization of the patents for the period August 5, 2005 to December 31, 2005 amounted to $244.

The excess amount allocated to computer software is amortized on a straight-line basis over the remaining life of the computer software. Management has calculated the weighted average life for amortization of computer software to be 5 years. The amortization of computer software for the period August 5, 2005 to December 31, 2005 amounted to $16.

The amounts allocated to goodwill and assembled workforce relate to intangible assets which have an indefinite life and therefore are not amortized, but are subject to an annual impairment test. If there is an impairment representing a decline in value other than a temporary decline, the value of the intangible asset would be written down to fair value.

4. DISTRIBUTION PAYABLE TO UNITHOLDERS:

The Fund declared a distribution payable for the month ended December 2005 of $0.0792 per unit. The distribution of $498 is payable January 16, 2006 to unitholders of record on December 30, 2005.

5. UNITHOLDERS' EQUITY:

The Fund is authorized to issue an unlimited number of units ("Fund Units") for the consideration of, and on the terms and conditions determined by, the trustees. Each Fund Unit is transferable and represents an equal undivided beneficial interest in the Fund and any distributions from the Fund. All Fund Units are of the same Class and have equal rights and privileges.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

5. UNITHOLDERS' EQUITY (CONTINUED):

The Fund is authorized to issue an unlimited number of Special Voting Units that will be used solely for providing voting rights to persons holding Class B and Class C LP Units of Pollard LP that are exchangeable for Fund Units and that, by their terms, have voting rights in the Fund. Special Voting Units will be issued in conjunction with, and will not be transferable separately from, the Class B and Class C LP Units to which they relate. Conversely, the Special Voting Units will automatically be transferred upon a transfer of the associated Class B and Class C LP Units.

Fund Units are redeemable at any time on demand by the unitholder. The redemption price per Fund Unit is equal to the lesser of 90 percent of the market price of the Fund Units on the principal stock exchange on which the Fund Units are listed during the 10 consecutive trading day period ending on the trading day immediately before the date of surrender of the Fund Unit for redemption (the "Redemption Date") and 100 percent of the closing market price of the Fund Units on the principal market in which the Fund Units are quoted for trading on the Redemption Date. Redemption is subject to a maximum of $50 in cash redemptions by the Fund in any one month. Any further redemption beyond this amount would be satisfied by the delivery of notes of Pollard Banknote Trust. The cash limitation may be waived at the discretion of the trustees of the Fund.

On August 5, 2005, the Fund issued 6,005,538 Fund Units for cash consideration of $60,055 as part of the Initial Public Offering and a private placement and also redeemed the originating 3,000 Fund Units for cash consideration of $3. On August 29, 2005 an additional 280,162 Fund Units were issued as part of the underwriter's over-allotment option for cash consideration of $2,802 less issuance costs of $168. At December 31, 2005 there were 6,285,700 Fund Units outstanding. In addition, the Fund issued 17,537,620 Special Voting Units in conjunction with the issuance of Class B and Class C LP Units of Pollard LP. 280,162 of these Special Voting Units were cancelled in conjunction with the over-allotment, leaving 17,257,458 Special Voting Units, owned by Pollard Amalco Inc., issued and outstanding at December 31, 2005.

On August 5, 2005, the Fund, Trust, Pollard Banknote Limited (the "General Partner"), Pollard LP and Pollard Amalco Inc. entered into an Exchange Agreement. The Exchange Agreement stipulates that Pollard Amalco Inc. has the right to require Trust to indirectly exchange Class B and C LP Units of Pollard LP and Special Voting Units of the Fund held by Pollard Amalco Inc. for Units of the Fund, on the basis of one Fund Unit for each Class B or C LP Unit exchanged. The exchange of Units under this Agreement would not dilute the Fund's income per Unit measure as any decrease in the income per Unit caused by the increase in the number of Units outstanding would be fully offset by an increase in the Fund's proportionate share of Pollard LP's income.

6. EQUITY INCOME FROM INVESTMENT IN POLLARD HOLDINGS LIMITED PARTNERSHIP:

The equity income from the Fund's investment in Class A LP Units of Pollard LP is calculated as follows:

Consolidated net income of Pollard LP for the period August 5, 2005 to December 31, 2005	$ 10,280
Fund's interest	26.7%
Fund's proportionate share of Pollard LP consolidated net income	2,744
Amortization of intangible assets (note 3)	(739)
Equity income from Pollard LP	$ 2,005

Notes to Consolidated Financial Statements

7. INCOME TAXES:

At December 31, 2005, the tax basis of the Fund's assets and liabilities exceeds the carrying value of those assets and liabilities by $569.

8. CONTINGENT LIABILITIES:

The Declaration of Trust of the Fund provides that the trustees will act honestly and in good faith with a view to the best interests of the Fund and in connection with that duty will exercise the degree of care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances. The Declaration of Trust of the Fund and the constating documents of each of the Fund's subsidiaries provide for the indemnification of its respective trustees, directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. The Declaration of Trust of the Fund also provides for the indemnification of its trustees from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties as trustees, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

9. RELATED PARTY TRANSACTIONS:

On August 5, 2005, the Fund, the Trust and the General Partner of Pollard LP entered into a Support Agreement. Under the terms of the Support Agreement, the General Partner will provide certain management, administrative and support services to the Fund and Trust and will be reimbursed for all direct and indirect costs and expenses it incurs in the provision of services pursuant to the Support Agreement. During the period August 5, 2005 to December 31, 2005, these reimbursed costs amounted to $74.

Issuance costs of the Fund of $6,246 related to the issuance of Fund Units on August 5, 2005 were borne by Pollard LP.

MANAGEMENT'S REPORT

The accompanying consolidated financial statements and all the information contained in the annual report of Pollard Holdings Limited Partnership ("Pollard LP") are the responsibility of management and have been approved by the Board of Directors of Pollard Banknote Limited, the general partner. Financial and operating data elsewhere in the annual report is consistent with the information contained in the financial statements. The financial statements and all other information have been prepared by management in accordance with Canadian generally accepted accounting principles. The financial statements include some amounts and assumptions based on management's best estimates which have been derived with careful judgment.

In fulfilling its responsibilities, management of Pollard LP has developed and maintains a system of internal accounting controls. These controls are designed to ensure that the financial records are reliable for preparing the financial statements. The Board of Directors of Pollard Banknote Limited carries out its responsibility for the financial statements through the Audit Committee. The Audit Committee reviews Pollard LP's annual consolidated financial statements and recommends their approval by the Board of Directors. The auditors have full access to the Audit Committee with and without management present.

The consolidated financial statements have been audited by KPMG LLP Chartered Accountants, whose opinion is contained in this annual report.

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Robert Rose
CHIEF FINANCIAL OFFICER

March 8, 2006

AUDITORS' REPORT

To the Partners of Pollard Holdings Limited Partnership

We have audited the consolidated balance sheet of Pollard Holdings Limited Partnership as at December 31, 2005 and the consolidated statements of income, partners' capital and cash flows for the period from August 5, 2005 (note 1) to December 31, 2005. We have also audited the consolidated balance sheet as at October 31, 2004 and the consolidated statements of income, retained earnings and cash flows of Pollard Amalco Inc. (as described in note 2) for the period from November 1, 2004 to August 4, 2005 and for the year ended October 31, 2004. The financial statements of Pollard Holdings Limited Partnership are the responsibility of the partnership's management. The financial statements of Pollard Amalco Inc. are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, the consolidated financial statements of Pollard Holdings Limited Partnership present fairly, in all material respects, the financial position of the partnership as at December 31, 2005 and the results of its operations and its cash flows for the period from August 5, 2005 to December 31, 2005; and the consolidated financial statements of Pollard Amalco Inc. present fairly, in all material respects, the financial position of the company as at October 31, 2004 and the results of its operations and its cash flows for the year then ended and for the period from November 1, 2004 to August 4, 2005 in accordance with Canadian generally accepted accounting principles.

KPMG LLP

CHARTERED ACCOUNTANTS

Winnipeg, Canada
March 8, 2006

Consolidated Statements of Income

(IN THOUSANDS OF DOLLARS)

	PERIOD FROM AUGUST 5, 2005 TO DECEMBER 31, 2005	PERIOD FROM NOVEMBER 1, 2004 TO AUGUST 4, 2005 (NOTE 2)	NOVEMBER 1, 2004 TO DECEMBER 31, 2005[1] (NOTE 2) (UNAUDITED) (PRO FORMA)	YEAR ENDED OCTOBER 31, 2004 (NOTE 2)
		(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)
Sales	$ 76,304	$ 131,014	$ 207,318	$ 171,944
Cost of sales	59,248	100,927	160,175	133,487
	17,056	30,087	47,143	38,457
Expenses:				
Selling and administration	8,445	14,029	22,474	19,392
Interest (note 17)	1,079	676	1,755	889
Foreign exchange loss (gain)	(880)	(142)	(1,022)	358
Mark-to-market gain on foreign currency contracts (note 23)	(2,151)	(1,919)	(4,070)	–
Long term incentive plan (note 24)	95	–	95	–
Other income	(290)	(629)	(919)	(469)
	6,298	12,015	18,313	20,170
Income before the undernoted	10,758	18,072	28,830	18,287
Employee profit sharing	908	1,704	2,612	1,479
Management bonus	–	1,833	1,833	8,000
Income before income taxes	9,850	14,535	24,385	8,808
Income taxes (note 13):				
Current	131	4,626	4,757	3,039
Future (reduction)	(561)	690	129	751
	(430)	5,316	4,886	3,790
Income before non-controlling interest	10,280	9,219	19,499	5,018
Non-controlling interest in income of subsidiary (note 15)	–	(302)	(302)	(95)
Net income	$ 10,280	$ 8,917	$ 19,197	$ 4,923

[1] Results of Pollard Amalco Inc. from November 1, 2004 to August 4, 2005 and the results of Pollard Holdings Limited Partnership for the period from August 5, 2005 to December 31, 2005.

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

(IN THOUSANDS OF DOLLARS)

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2) (FOR COMPARATIVE PURPOSES ONLY)
Assets		
Current assets:		
Cash and cash equivalents	$ 3,826	$ 6,884
Accounts receivable (note 20)	18,511	17,110
Loan to Pollard Amalco Inc. (note 5)	4,731	–
Income taxes recoverable	–	131
Inventories (note 6)	15,801	15,428
Prepaid expenses and deposits	2,576	2,807
Net investment in leases due within one year	1,833	1,576
	47,278	43,936
Property, plant and equipment (note 7)	38,303	38,545
Net investment in leases (note 8)	3,292	4,936
Foreign currency contracts (note 23)	4,070	–
Goodwill (note 9)	6,005	6,279
Other assets (note 10)	871	2,461
	$ 99,819	$ 96,157

See accompanying notes to consolidated financial statements.

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2) (FOR COMPARATIVE PURPOSES ONLY)
Liabilities and Partners' Capital/Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 20)	$ 12,443	$ 21,539
Distributions payable to partners (note 11)	499	–
Distributions payable to Pollard Amalco Inc. (note 5)	6,658	–
Income taxes payable	943	–
Principal due within one year on long-term debt	–	5,818
	20,543	27,357
Long-term debt (note 12)	49,217	15,010
Preferred shares (note 15)	–	800
Future income taxes (note 13)	987	3,935
Non-controlling interest (note 15)	–	4,874
Partners' capital/shareholders' equity:		
Partners' capital (note 14)	29,716	–
Capital stock (note 15)	–	201
Retained earnings	–	46,301
Cumulative translation account	(644)	(2,321)
	29,072	44,181
Commitments and contingencies (note 16)		
	$ 99,819	$ 96,157

See accompanying notes to consolidated financial statements.

On behalf of Pollard Holdings Limited Partnership by its general partner,
Pollard Banknote Limited

D.C. Crewson
DIRECTOR

John Pollard
DIRECTOR

POLLARD HOLDINGS LIMITED PARTNERSHIP

Consolidated Statement of Partners' Capital

(IN THOUSANDS OF DOLLARS)

	GENERAL PARTNER UNITS	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS	TOTAL
Partners'capital, June 29, 2005, date of formation of Pollard LP	$ –	$ –	$ –	$ –	$ –
Issuance of Class A, B and C LP Units (notes 1 and 14)	–	60,055	–	–	60,055
Issuance costs (note 20)	–	(6,246)	–	–	(6,246)
	–	53,809	–	–	53,809
Opening deficit (note 4)	(13)	(6,732)	(14,701)	(3,783)	(25,229)
Issuance of over-allotment August 29, 2005 (note 14)	–	2,634	–	–	2,634
Redemption August 29, 2005 (note 14)	–	–	(2,634)	–	(2,634)
Net income for the period from August 5, 2005 to December 31, 2005	5	2,744	5,990	1,541	10,280
Distributions declared (note 14)	(5)	(2,481)	(5,295)	(1,363)	(9,144)
Partners' capital, December 31, 2005	$ (13)	$ 49,974	$(16,640)	$ (3,605)	$ 29,716

See accompanying notes to consolidated financial statements.

POLLARD HOLDINGS LIMITED PARTNERSHIP

Consolidated Statement of Retained Earnings (NOTE 2)

(IN THOUSANDS OF DOLLARS)

Retained earnings, November 1, 2003	$ 41,378
Net income for the year ended October 31, 2004	4,923
Retained earnings, October 31, 2004	46,301
Net income for the period November 1, 2004 to August 4, 2005	8,917
Excess of redemption value over non-controlling interest (note 15)	(3,324)
Excess of redemption value over preferred shares (note 15)	(28)
Distribution related to acquisition (note 4)	(39,271)
Retained earnings, August 4, 2005	$ 12,595

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(IN THOUSANDS OF DOLLARS)

	PERIOD FROM AUGUST 5, 2005 TO DECEMBER 31, 2005	PERIOD FROM NOVEMBER 1, 2004 TO AUGUST 4, 2005 (NOTE 2)	NOVEMBER 1, 2004 TO DECEMBER 31, 2005[1] (NOTE 2) (UNAUDITED) (PRO FORMA)	YEAR ENDED OCTOBER 31, 2004 (NOTE 2)
		(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)
CASH AND CASH EQUIVALENTS PROVIDED BY (USED IN):				
Operating activities:				
Net income	$ 10,280	$ 8,917	$ 19,197	$ 4,923
Items not involving cash:				
Amortization	2,990	6,221	9,211	8,621
Loss on sale of equipment	–	–	–	2
Unrealized foreign exchange loss (gain)	(323)	25	(298)	(1,210)
Future income taxes (reduction)	(561)	690	129	751
Increase in cash surrender value of life insurance loans	–	(86)	(86)	(85)
Mark-to-market gain on foreign currency contracts	(2,151)	(1,919)	(4,070)	–
Change in non-controlling interest	–	302	302	95
Change in non-cash operating working capital (note 18)	(215)	(8,557)	(8,772)	(280)
	10,020	5,593	15,613	12,817
Investing activities:				
Additions to property, plant and equipment	(1,247)	(7,620)	(8,867)	(8,450)
Change in net investment in leases	492	667	1,159	(3,386)
Proceeds from sale of equipment	–	–	–	45
Change in other assets	93	112	205	(137)
	(662)	(6,841)	(7,503)	(11,928)
Financing activities:				
Proceeds from issuance of long-term debt	50,000	–	50,000	7,320
Repayment of long-term debt	(6,213)	(4,441)	(10,654)	(8,777)
Change in bank indebtedness	(243)	13,843	13,600	(1,585)
Repayment of life insurance loans	–	–	–	(232)
Repayment of note payable (note 4)	(60,538)	–	(60,538)	–
Distribution related to acquisition (note 4)	(39,271)	–	(39,271)	–
Redemption of Class B LP Units	(2,634)	–	(2,634)	–
Issuance of Class A LP Units	62,689	–	62,689	–
Issuance costs	(6,246)	–	(6,246)	–
Deferred financing costs	(326)	–	(326)	–
Redemption of non-controlling interest	–	(8,500)	(8,500)	–
Distributions	(6,718)	–	(6,718)	–
Redemption of preferred shares	–	(828)	(828)	(400)
	(9,500)	74	(9,426)	(3,674)
Foreign exchange gain on cash held in foreign currency	9	(3)	6	186
Decrease in cash and cash equivalents	(133)	(1,177)	(1,310)	(2,599)
Cash and cash equivalents, beginning of period	5,707	6,884	6,884	9,483
Cash retained by Amalco (note 4)	(1,748)	–	(1,748)	–
Cash and cash equivalents, end of period	$ 3,826	$ 5,707	$ 3,826	$ 6,884
Supplementary cash flow information:				
Interest paid	$ 990	$ 670	$ 1,660	$ 935
Income taxes paid	196	2,877	2,877	4,017

[1] Results of Pollard Amalco Inc. from November 1, 2004 to August 4, 2005 and the results of Pollard Holdings Limited Partnership for the period from August 5, 2005 to December 31, 2005.

See accompanying notes to consolidated financial statements.

1. DESCRIPTION OF LIMITED PARTNERSHIP:

Pollard Holdings Limited Partnership ("Pollard LP") is a limited partnership established under the laws of the Province of Manitoba on June 29, 2005 by a partnership agreement (the "Partnership Agreement") as amended August 5, 2005. Pollard LP was established to acquire the business of the manufacture and sale of lottery and gaming products (the "business") from Pollard Banknote Limited, renamed Pollard Amalco Inc., ("Amalco" or the "predecessor company"), and to operate such business thereafter. For the period between June 29, 2005 and August 4, 2005, Pollard LP was inactive.

Subject to the terms of a master purchase agreement, effective August 5, 2005 Amalco transferred the business and certain assets to Pollard LP in exchange for promissory notes, a combination of Class B and Class C limited partnership ("LP") Units and the assumption of certain liabilities.

As part of an initial public offering (the "offering") and a private placement, 6,005,538 Class A LP Units, equal to 25.5 percent of the outstanding limited partnership interests of Pollard LP, were issued indirectly to the Pollard Banknote Income Fund (the "Fund") in exchange for cash consideration of $60,055. The acquisition of the limited partnership units occurred through Pollard Banknote Trust (the "Trust"), a wholly-owned subsidiary of the Fund (note 4).

On August 29, 2005 the underwriting group exercised an over-allotment option from the Fund resulting in an indirect purchase by the Fund of 280,162 additional Class A LP Units from Pollard LP for net proceeds of $2,634. In addition, on August 29, 2005 Pollard LP redeemed 280,162 Class B LP Units from Amalco for $2,634.

After the exercise of the over-allotment option, the Fund's economic interest in Pollard LP approximates 26.7 percent and Amalco's economic interest in Pollard LP approximates 73.3 percent.

These financial statements include only the assets, liabilities, revenues and expenses of Pollard LP and do not include the other assets, liabilities, revenues and expenses, including income taxes, of the partners.

The General Partner of Pollard LP is Pollard Banknote GP Inc., subsequently renamed Pollard Banknote Limited ("PBL"), which holds an economic interest of 0.05 percent in the partnership. The Fund indirectly owns, through the Trust, 26.7 percent of PBL and the remaining 73.3 percent is owned by Amalco.

2. BASIS OF PRESENTATION:

As described in note 1, the business of Amalco was transferred to Pollard LP on August 5, 2005. As the transfer was between entities under common control and involved no substantive change in the ultimate ownership at the time the business was transferred, the transfer has been accounted for under the continuity of interests method of accounting. Accordingly, the historical book values of Amalco have been transferred to Pollard LP and these consolidated financial statements reflect the financial position, results of operations and cash flows as if Pollard LP has always carried on the business formerly carried on by the predecessor company, Amalco.

Pollard LP has adopted a fiscal year ending December 31. The fiscal year of the predecessor company was October 31. As a result, these consolidated financial statements present the operations of the predecessor company from November 1, 2004 to August 4, 2005 and the operations of Pollard LP from August 5, 2005 to December 31, 2005. The financial information for the fourteen month period ended December 31, 2005 combines, on a pro forma basis, the operations of the predecessor company and Pollard LP, and may not necessarily be indicative of the results that would have been attained if Pollard LP and Amalco had operated as a separate legal entity or through a limited partnership. The comparative period includes operations of the predecessor company for the twelve months ended October 31, 2004.

2. BASIS OF PRESENTATION (CONTINUED):

The comparative consolidated financial information of the predecessor company prior to commencement of business operations by Pollard LP on August 5, 2005 are not necessarily indicative of the results that would have been attained if the predecessor business had been operated by Pollard LP during the period presented and, therefore, are not necessarily indicative of future operating results. No adjustments have been made to the predecessor company's financial statements prior to August 5, 2005, to reflect incremental changes to the cost structure and capital structure as a result of the legal formation of Pollard LP and no changes have been made to reflect certain assets and liabilities that were not transferred to Pollard LP as part of the transaction described above.

3. SIGNIFICANT ACCOUNTING POLICIES:

(a) Principles of consolidation:

For the period subsequent to August 5, 2005, these consolidated financial statements include the accounts of Pollard LP and the following 100 percent owned subsidiaries:

- Pollard (U.S.) Ltd.
- Pollard Banknote Limited Partnership
- Pollard Holdings, Inc.
- Pollard (Canada), Inc.
- PBL of Puerto Rico, Inc.
- Pollard Games, Inc.

For the periods prior to August 5, 2005, these consolidated financial statements include the accounts of the predecessor company, Amalco, and its subsidiaries as disclosed in the Fund's prospectus dated July 27, 2005.

All inter-company transactions have been eliminated.

(b) Cash and cash equivalents:

Cash and cash equivalents consist of cash on deposit and highly liquid short-term investments, with original maturities at the date of acquisition of 90 days or less, and are recorded at cost plus accrued interest.

(c) Revenue recognition:

Revenue is recognized when persuasive evidence of an arrangement exists, significant risks and benefits of ownership are transferred, the sales price to the customer is fixed or is determined and collection of the resulting receivable is reasonably assured. The significant risks of ownership and benefits of ownership are normally transferred in accordance with the shipping terms agreed to with the customer. Volume rebates are accrued and recorded as a reduction to sales based on historical experience and management's expectations regarding sales volume. Revenue related to lottery management services is recognized based on a percentage of lottery sales of instant lottery tickets pursuant to the terms of the contract.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(d) Leases:

In some instances, one of Pollard LP's subsidiaries will lease vending machines to third-party customers. Depending on the specific terms contained in the lease agreements, the lease is either classified as an operating lease or capitalized as a sales-type lease.

Pollard LP's subsidiary's leasing operations consist principally of the leasing of Instant Ticket Vending Machines ("ITVM") with state lotteries and Pull Tab Vending Machines ("PTVM") with various private establishments. These leases are classified as sales-type leases. The ITVM and PTVM leases have terms of five and four years, respectively. The net investment in sales-type leases consists of the present value of the future minimum lease payments. Interest revenue is recognized as a constant percentage return on the net investment.

(e) Inventories:

Raw materials are valued at the lower of cost and replacement cost. Work-in-process and finished goods are valued at the lower of cost and net realizable value.

(f) Goodwill:

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of the U.S. subsidiaries and is not amortized. Goodwill is subject to an annual impairment review to ensure its fair value remains greater than, or equal to, book value.

The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized. Pollard LP performs the impairment tests on an annual basis. The annual impairment test was performed on December 31, 2005 and it was determined that there was no impairment to the carrying value. In future years, the annual impairment test will be performed on June 30.

(g) Intangibles:

Intangible assets with a finite life are comprised of patents and are amortized over their useful lives, generally not exceeding 15 years, on a straight-line basis.

(h) Deferred financing charges:

Deferred financing charges are related to the term bank loan and are amortized on a straight-line basis over the three-year term of the loan.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

(i) Property, plant and equipment:

Property, plant and equipment are stated at cost less investment tax credits. Amortization is provided on a straight-line basis over the estimated useful asset lives as follows:

ASSET	RATE
Buildings	30 years
Leasehold improvements	Term of lease
Equipment	3 to 11 years
Furniture, fixtures and computers	3 to 9 years

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. No assets have been deemed to be impaired.

(j) Financial instruments:

Pollard LP may use certain derivative financial instruments to manage risks of fluctuation in interest rates and foreign exchange rates. Pollard LP does not engage in the trading of these derivative financial instruments for profit.

Pollard LP may enter into interest rate swap agreements in order to limit exposure to increases in interest rates and fix interest rates on certain portions of long-term debt. Pollard LP applies hedge accounting for the interest rate swap agreements. Payments and receipts under interest rate swap agreements designated as effective hedges are recognized as adjustments to interest expense on long-term debt in the same period that the underlying hedged transactions are recognized. Pollard LP formally documents the relationship between the hedging instrument and the hedged item, as well as the nature of the specific risk exposure being hedged and the intended term of the hedging relationship. The effectiveness of the hedge is assessed at inception and throughout the term of the hedge. Any hedging transactions that do not qualify for hedge accounting are marked-to-market at each period end with any resulting gains or losses recorded in income.

Pollard LP may enter into foreign currency forward contracts to limit exposure on certain recognized assets or liabilities, firm commitments, or foreign currency risk in an unrecognized firm commitment. The foreign currency contracts are recognized in the balance sheet and measured at fair value, with changes in fair value recognized currently in the statement of income.

(k) Translation of foreign currencies:

Pollard LP and its Canadian subsidiaries translate any amounts denominated in foreign currencies to Canadian dollars as follows: monetary assets and liabilities at effective rates prevailing at the end of the reporting period; non-monetary assets, non-monetary liabilities, revenue and expenses at effective rates prevailing at the time of the transaction other than long-term foreign currency denominated monetary items. Gains or losses from translations are recognized in income in the period they occur.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Pollard (U.S.) Ltd. and PBL of Puerto Rico, Inc. are considered to be fully integrated operations and as a result their accounts have been translated into Canadian dollars in accordance with the temporal method as follows: monetary assets and liabilities at effective rates prevailing at the end of the reporting period; non-monetary assets and liabilities at effective rates prevailing at the time of the transaction; amortization expense at the rate in effect at the time the related assets are acquired; revenues and expenses at average rates prevailing during the reporting period. Gains or losses from translation are recognized in income in the period they occur.

Pollard Games, Inc. is considered to be a self-sustaining operation and as a result its accounts have been translated into Canadian dollars in accordance with the current rate method as follows: assets and liabilities at the exchange rate in effect at the balance sheet date and revenue and expenses are translated at the average rate for the reporting period. Translation adjustments arising from exchange rate fluctuations are shown as a cumulative translation account in partners' capital until realized, at which time they are recognized into income.

(l) Employee future benefits:

Pollard LP maintains four non-contributory defined benefit pension plans in Canada and the United States, three being final pay plans and one being a flat benefit plan. None of the plans have indexation features. A market rate is used to measure benefit obligations. The expected return on pension plan assets is calculated on the fair value of the assets as of the year-end date.

The costs of Pollard LP's defined benefit plans are recognized over the period in which employees render service to Pollard LP in return for the benefits. These costs are actuarially determined using the projected benefit method pro-rated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Current service costs and interest costs on the benefit obligation are charged to income as they accrue. Past service costs, plan amendments, changes in assumptions, the net transitional asset amount and the cumulative unrecognized net actuarial gains and losses in excess of 10 percent of the greater of the benefit obligation or the fair value of plan assets are amortized to income on a straight-line basis over the expected average remaining service life of active plan members. The expected average remaining service life of the active employees covered by the defined benefit plans ranges from 14 to 18 years. Pollard LP's funding policy is consistent with statutory regulations.

Pollard LP's U.S. subsidiaries maintains two defined contribution plans in the United States. The pension expense for these plans is the annual funding contribution by the subsidiaries.

(m) Income taxes:

Pollard LP is not a taxable entity, and accordingly, no provision for income taxes has been included in the consolidated financial statements for Pollard LP and Pollard Banknote Limited Partnership since all income, deductions, gains, losses and credits are reportable on the tax return of the partners.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Pollard LP 's incorporated subsidiaries are taxable entities and as such, income taxes are recorded to reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax basis. Future income tax assets and liabilities are determined based on the enacted or substantively enacted tax rates, which are expected to be in effect when the underlying items of income and expense are expected to be realized. Valuation allowances are established when necessary to reduce the future tax assets to the amounts expected to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of enactment or substantive enactment. Income tax expense includes withholding taxes.

(n) Use of estimates:

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of certain revenues and expenses during the year. Actual results could differ from those estimates.

(o) Comparative figures:

Certain prior period amounts have been reclassified to conform to the current period's presentation.

4. TRANSFER OF NET ASSETS:

On August 5, 2005, Amalco transferred its operating assets and liabilities, with a book value of $35,309, to Pollard LP in exchange for promissory notes of $60,538 and 14,006,146 Class B LP Units and 3,531,474 Class C LP Units, which have an estimated combined fair value of $172,245 (unaudited). The continuity of interests method of accounting was used to record this transaction. In addition, on August 5, 2005, the promissory notes were repaid using proceeds from issuance of 6,005,538 Class A LP Units and proceeds from a new credit facility (note 12).

In conjunction with the transfer and the offering, Pollard LP and a subsidiary obtained a new credit facility (note 12). Proceeds of the new credit facility were used to assist in funding the transfer of the net assets of Amalco. Certain proceeds of the new credit facility were also advanced to the U.S. subsidiary and, together with a subordinated loan of $28,000 from Pollard LP, were used, prior to transfer, to make distributions of $39,271 from the U.S. subsidiary to Amalco and to repay a portion of the existing credit facilities of $6,456. After transfer, the subordinated loan of $28,000 between Pollard LP and the U.S. subsidiary is eliminated on consolidation.

The transferred assets and liabilities have been recorded at the book values at the date of transfer. The excess of consideration exchanged over the carrying value of the net assets transferred has been charged to partners' capital.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

4. TRANSFER OF NET ASSETS (CONTINUED):

The book value of the net assets transferred was as follows:

Net assets acquired:		
Net working capital	$	34,905
Property, plant and equipment		39,949
Goodwill		6,250
Net investment in leases		3,943
Other assets		708
Foreign currency contracts		1,919
Future income taxes		(1,609)
Long-term debt		(50,756)
Net assets acquired at book value		35,309
Cash consideration		60,538
Deficit charged to partners' capital	$	(25,229)

The book value of the net liabilities retained by Amalco was as follows:

Net liabilities retained by Amalco:		
Net working capital, including cash of $1,748	$	(13,499)
Other assets		1,726
Future income taxes		(2,939)
Long-term debt		(10,169)
	$	(24,881)

5. LOAN TO POLLARD AMALCO INC. AND DISTRIBUTIONS PAYABLE TO POLLARD AMALCO INC.:

Pollard Amalco Inc. has exercised its right to receive its entitlement to monthly cash distributions from Pollard LP by way of loan. The loan to Pollard Amalco Inc. and the distributions payable to Pollard Amalco Inc. were settled subsequent to December 31, 2005. For purposes of financial presentation, the loan receivable from and related distributions payable to Pollard Amalco Inc. have been presented separately as there is no legal right of offset against each of these balances. In addition, included in the distributions payable to Pollard Amalco Inc. is an amount of $1,927 relating to distributions declared December 14, 2005 for unitholders on record at December 30, 2005, payable on January 16, 2006.

6. INVENTORIES:

		DECEMBER 31, 2005		OCTOBER 31, 2004 (NOTE 2)
Raw materials	$	4,670	$	6,001
Work-in-process		1,665		1,060
Finished goods		9,466		8,367
	$	15,801	$	15,428

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

7. PROPERTY, PLANT AND EQUIPMENT:

DECEMBER 31, 2005	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 2,069	$ –	$ 2,069
Buildings	18,003	3,686	14,317
Leasehold improvements	628	488	140
Equipment	81,036	60,102	20,934
Furniture, fixtures and computers	2,786	1,943	843
	$ 104,522	$ 66,219	$ 38,303

OCTOBER 31, 2004 (NOTE 2)	COST	ACCUMULATED AMORTIZATION	NET BOOK VALUE
Land	$ 1,792	$ –	$ 1,792
Buildings	11,546	2,392	9,154
Leasehold improvements	2,622	1,109	1,513
Equipment	77,955	52,831	25,124
Furniture, fixtures and computers	2,662	1,700	962
	$ 96,577	$ 58,032	$ 38,545

8. NET INVESTMENT IN LEASES:

The following lists the components of the net investment in leases:

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2)
Total minimum lease payments to be received	$ 5,625	$ 7,393
Unearned income (interest rate ranging from 4.43% to 11.35%)	(500)	(881)
	5,125	6,512
Less net investment in leases due within one year	1,833	1,576
	$ 3,292	$ 4,936

The minimum lease payments to be received in the next four fiscal years to expiry are as follows:

2006	$ 2,079
2007	2,016
2008	1,234
2009	296
	$ 5,625

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

9. GOODWILL:

The changes in the carrying amount of goodwill is as follows:

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2)
Balance, beginning of period	$ 6,279	$ 6,750
Changes in foreign exchange rates prior to acquisition	(29)	(471)
Balance at time of acquisition (note 4)	6,250	6,279
Changes in foreign exchange rates	(245)	–
Balance, end of period	$ 6,005	$ 6,279

10. OTHER ASSETS:

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2)
Patents, net of amortization	$ 443	$ 474
Cash surrender value of life insurance	–	1,640
Deferred financing charges, net of amortization	276	–
Other	152	347
	$ 871	$ 2,461

11. DISTRIBUTIONS PAYABLE TO PARTNERS:

Pollard LP declared a distribution payable for the month ended December 31, 2005 of $0.0792 per Class A and Class B LP Units and $0.2375 on Class C LP Units. Distributions of $498 are payable on the Class A LP Units and distributions of $1 are payable on the General Partner Units on January 16, 2006, to unitholders of record on December 30, 2005. The distribution of $1,927 relating to the Class B and Class C LP Units is payable January 16, 2006 to unitholders of record on December 30, 2005 and is included in distributions payable to Pollard Amalco Inc.

12. LONG-TERM DEBT:

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2)
Term bank loans, principal payable $1,020 per quarter plus interest ranging from 2.97% to 3.54%	$ –	$ 12,208
Term bank loan US$6,000, principal payable US$100 per month plus interest of 2.465%	–	7,320
Term bank loan, principal payable $300 annually, interest at 3.18%	–	1,300
Term bank loan, interest of 4.52% to 4.89% payable monthly, maturing 2008	32,000	–
Term bank loan US$14,778, interest of 6.17% payable monthly, maturing 2008	17,217	–
	49,217	20,828
Principal included in current liabilities	–	5,818
	$ 49,217	$ 15,010

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

12. LONG-TERM DEBT (CONTINUED):

Pollard LP's credit facilities include a demand operating facility and a committed term bank loan facility. The demand operating facility includes up to $15,000 for its Canadian operations and up to $9,320 (US$8,000) for its U.S. operations. The committed term bank loan facility provides loans of up to $32,000 for its Canadian operations and up to $17,217 (US$14,778) for its U.S. subsidiaries. Borrowings under these credit facilities bear interest at fixed and floating rates based on Canadian and U.S. prime bank rates, banker's acceptances or LIBOR. At December 31, 2005, the balances outstanding under the demand operating facilities, other than letters of credit of $2,702, were nil and the committed term bank loan facilities were fully drawn.

Pollard LP's credit facilities are secured by a first security interest in all of the present and after acquired property of Pollard LP and its operating subsidiaries. The term bank loan facility is pre-payable without penalties. Under the terms of the agreement, the term facility is committed for a one year period, renewable August 5, 2006. If the term facility is not renewed, the term loans are repayable two years after the term loan expiry date. As such, each term facility has effectively a three year term expiring August 5, 2008 with no principal payments required prior to expiration.

Under the terms and conditions of the credit facility agreement Pollard LP is required to maintain certain financial covenants including working capital ratios, debt to income before interest, taxes, depreciation and amortization ("EBITDA") ratios and certain debt service coverage ratios. As at December 31, 2005, Pollard LP is in compliance with all financial covenants.

Term bank loans outstanding as at October 31, 2004 were repaid or not assumed by Pollard LP as part of the acquisition (note 4).

Pollard LP entered into an interest rate swap agreement and effectively converted variable rate debt obligations in the amount of $27,000 with underlying floating rates of 2.92 percent plus applicable credit margin to a fixed rate of 3.74 percent plus applicable credit margin.

Pollard Holdings, Inc. entered into an interest rate swap agreement and effectively converted variable rate debt obligations in the amount of $17,217 (US$14,778) with underlying floating rates of 4.01 percent plus applicable credit margin to a fixed rate of 4.67 percent plus applicable credit margin.

13. INCOME TAXES:

(a) Components of income tax provision:

The provision for income taxes is comprised of the following:

	PERIOD FROM AUGUST 5, 2005 TO DECEMBER 31, 2005	PERIOD FROM NOVEMBER 1, 2004 TO AUGUST 4, 2005 (NOTE 2)	NOVEMBER 1, 2004 TO DECEMBER 31, 2005 (NOTE 2) (UNAUDITED) (PRO FORMA)	YEAR ENDED OCTOBER 31, 2004 (NOTE 2)
		(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)
Canada:				
Current income taxes	$ 176	$ 2,074	$ 2,250	$ 395
Future income taxes	–	790	790	18
	176	2,864	3,040	413
United States:				
Current income taxes (reduction)	(45)	2,552	2,507	2,644
Future income taxes (reduction)	(561)	(100)	(661)	733
	(606)	2,452	1,846	3,377
	$ (430)	$ 5,316	$ 4,886	$ 3,790

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

13. INCOME TAXES (CONTINUED):

(b) Reconciliation to statutory rate:

The overall income tax provision differs from the amount that would be obtained by applying the combined statutory income tax rate to income due to the following:

	PERIOD FROM AUGUST 5, 2005 TO DECEMBER 31, 2005	PERIOD FROM NOVEMBER 1, 2004 TO AUGUST 4, 2005 (NOTE 2)	NOVEMBER 1, 2004 TO DECEMBER 31, 2005 (NOTE 2) (UNAUDITED) (PRO FORMA)	YEAR ENDED OCTOBER 31, 2004 (NOTE 2)
		(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)
Income taxes at Canadian Rates:				
Canadian combined federal and provincial income tax rate	36.8%	36.8%	36.8%	36.8%
Income taxes	$ 3,623	$ 5,346	$ 8,969	$ 3,239
Partnership net income allocated to limited partners and therefore not subject to tax	(2,756)	–	(2,756)	–
Withholding taxes	176	–	176	–
Difference between Canadian rate and rates applicable to subsidiaries in the U.S. and other jurisdictions	–	(6)	(6)	125
Unused (utilization of) tax losses	27	(273)	(246)	62
Effect of non-taxable items	(1,500)	249	(1,251)	364
Provision for income taxes	$ (430)	$ 5,316	$ 4,886	$ 3,790

(c) Future income tax liability:

Significant components of the net future income tax liability are as follows:

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2)
Future income tax assets:		
Goodwill	$ –	$ 140
Foreign exchange	475	–
Inventories	191	261
Accrued expenses and other reserves	330	280
Future tax assets	$ 996	$ 681

[IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS]

13. INCOME TAXES (CONTINUED):

	DECEMBER 31, 2005	OCTOBER 31, 2004 [NOTE 2]
Future income tax liabilities:		
Property, plant and equipment	$ (938)	$ (3,694)
Leasing transactions	(971)	(922)
Goodwill	(74)	–
Future tax liabilities	$ (1,983)	$ (4,616)
Net future tax liability	$ (987)	$ (3,935)

(d) At December 31, 2005, the tax basis of the limited partnership's assets and liabilities exceeds the carrying value of those assets and liabilities by $12,585.

14. PARTNERS' CAPITAL:

Pollard LP is authorized to issue an unlimited number of Class A, B, and C Limited Partnership Units and an unlimited number of General Partner Units.

Pollard LP was established on June 29, 2005. One Class B Limited Partnership Unit and one General Partner Unit were issued on formation of Pollard LP.

On August 5, 2005, as part of the initial public offering and a private placement of the Pollard Banknote Income Fund, 6,005,538 Class A LP Units were issued to the Fund's wholly-owned subsidiary, Pollard Banknote Trust, for net proceeds of $60,055. In addition, the operating business of Amalco was transferred to Pollard LP. As partial payment, Pollard LP issued 14,006,146 Class B LP Units and 3,531,474 Class C LP Units to Amalco (note 4). Pollard LP paid offering costs and underwriting costs relating to the issuance of the units amounting to $6,246 which have been accounted for as a cost of the unit offering.

On August 29, 2005, the underwriting group exercised an over-allotment option and a further 280,162 units of the Fund were issued for proceeds of $2,634. With the proceeds from this issuance, the Fund, through the Pollard Banknote Trust, purchased 280,162 Class A LP Units from Pollard LP. In addition, on August 29, 2005, Pollard LP redeemed 280,162 Class B LP Units from Amalco for $2,634.

After the exercise of the over-allotment, the Fund's economic interest in Pollard LP approximates 26.7 percent and Amalco's economic interest in Pollard LP approximates 73.3 percent.

At December 31, 2005, Pollard LP has the following issued and outstanding units:

	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS
Pollard Amalco Inc.	–	13,725,984	3,531,474
Pollard Banknote Income Fund	6,285,700	–	–
Total number of units, end of period	6,285,700	13,725,984	3,531,474

In addition, 106,945 General Partner Units are issued and outstanding with the General Partner, Pollard Banknote Limited.

Pollard LP's net income are allocated to the General Partner and to the Limited Partners on the basis of 0.05 percent and 99.95 percent, respectively.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

14. PARTNERS' CAPITAL (CONTINUED):

Distributions are made on the Class A, and B LP Units and the General Partner Units within 15 days of the end of each month and on the Class C LP Units within 15 days of the end of each fiscal quarter.

UNIT DISTRIBUTIONS:

Distributions on the LP Units will be made in the following priority:

1. First, holders of General Partner Units will be entitled to receive monthly cash distributions equal to the general partner interest, being 0.05 percent. Second, holders of Class A LP Units will be entitled to receive an amount sufficient to provide the Fund with available cash to make cash distributions of a minimum of $0.0792 per unit for such month or, if there is insufficient available cash to make distributions in such amounts, such lesser amount as is available, on a proportionate basis; and to holders of Class B LP Units, an amount per Class B LP Unit equal to the cash distribution per unit of the Fund in such month;
2. At the end of each fiscal quarter of Pollard LP, including the fiscal quarter ending on the fiscal year end, available cash will be distributed in the following order of priority:
   (i) first, in payment of the monthly cash distribution to the holders of General Partner Units, Class A LP Units and Class B LP Units as described in (1) above for the period then ended;
   (ii) second, to the holders of Class A LP Units and Class B LP Units, if monthly per unit distributions on the units in respect of the 12 month period then ended were not made or were made in amounts less than the amounts described above, the amount of any such deficiency;
   (iii) third, to holders of Class C LP Units, $0.2375 per Class C LP Unit or, if there is insufficient cash to make distributions in such amounts, such lesser amount as is available;
   (iv) fourth, to the holders of Class C LP Units, to the extent that per unit distributions on the Class C LP Units in respect of any fiscal quarter(s) during the 12 month period then ended were not made or were made in amounts less than $0.2375 per Class C LP Unit, the amount of such deficiency or such lesser amount as is available; and
   (v) fifth, to the extent of any remaining cash, to the holders of Class A LP Units, Class B LP Units and Class C LP Units such that aggregate per unit distributions on the units of the Fund, Class B LP Units and Class C LP Units are the same.

In addition to the cash distributions described above, subject to the terms of the limited partnership agreement, the General Partner may make a cash distribution to holders of LP Units at any other time.

The following outlines the distributions declared to date:

	GENERAL PARTNER UNITS	CLASS A LP UNITS	CLASS B LP UNITS	CLASS C LP UNITS	TOTAL
August 19, 2005	$ 1	$ 434	$ 947	$ –	$ 1,382
September 12, 2005	1	498	1,087	523	2,109
October 12, 2005	1	505	1,087	–	1,593
November 14, 2005	1	498	1,087	–	1,586
December 14, 2005	1	500	1,087	840	2,428
December 31, 2005	–	46	–	–	46
	$ 5	$ 2,481	$ 5,295	$ 1,363	$ 9,144

14. PARTNERS' CAPITAL (CONTINUED):

The distribution declared on December 31, 2005 was to fund a portion of the administrative costs of the Trust and the Fund.

SUBORDINATION END DATE:

The Class C LP Units can be converted to units of the Fund on the subordination end date that is the first date following June 30, 2007 on which:

1. Pollard LP has realized defined earnings targets of $28,066 as set out in the limited partnership agreement; and
2. Each of the Fund and Pollard LP has paid average monthly cash distributions of at least $0.0792 per unit or LP Unit, for the corresponding continuous 24-month period ending on or after June 30, 2007.

After the conversion date, the Class C LP Units will automatically convert to Class B LP Units on a one-to-one basis, and further distributions to holders of Class B LP Units will be made monthly on a proportionate basis.

UNIT RIGHTS:

On August 5, 2005, the Fund and its wholly owned Trust, the General Partner, Pollard LP and Amalco entered into an Exchange Agreement. The Exchange Agreement stipulates that Amalco has the right to require the Trust to indirectly exchange Class B and Class C LP Units held by Amalco for units of the Fund, on the basis of one Fund Unit for each Class B or Class C LP Unit exchanged. The exchange of Units under this Exchange Agreement would not dilute the Fund's income per Unit measure as any decrease in the income per Unit caused by the increase in the number of Units outstanding would be fully offset by an increase in the Fund's proportionate share of Pollard LP's income.

The Class A, B and C LP Units have economic and voting rights that are equivalent in all material respects, except that:

1. the Class B LP Units will be exchangeable for units of the Fund at the option of the holder on a one-for-one basis at anytime unless the exchange would jeopardize the Fund's status as a "mutual fund trust" under the Income Tax Act;
2. the Class C LP Units will be exchangeable for units of the Fund at the option of the holder on a one-for-one basis at any time on and following the subordination end date (as described above);
3. the Class B LP Units and Class C LP Units will automatically become exchangeable into units of the Fund upon the satisfaction of certain conditions and in certain circumstances, generally with respect to a takeover bid or business combination of the Fund;
4. distributions on Class C LP Units will be subordinated as described above; and
5. distributions on the Class A LP Units, the Class B LP Units and the Class C LP Units will differ as described above.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

15. CAPITAL STOCK:

Authorized:

Unlimited	Common shares.
Unlimited	Class A and B voting preferred shares, redeemable and retractable at $3.33 per share.
Unlimited	Class C non-voting preferred shares, annual dividend of $7.50 per share, redeemable at $100 per share.
Unlimited	Class D non-voting preferred shares, cumulative dividend based on bank prime rate, redeemable at $1 per share.

Issued:

	October 31, 2004 (Note 2)	
	Number of shares	Share capital
Common shares	520,000	$ 201
Class C preferred shares:		
October 31, 2003, beginning of period	12,000	1,200
Redeemed	(4,000)	(400)
October 31, 2004, end of period	8,000	$ 800

During the period ended August 4, 2005, the predecessor company redeemed 8,000 Class C preferred shares for cash consideration of $828. The amount of the redemption value in excess of the stated value was charged to retained earnings.

In addition to the fixed dividends, the Class C preferred shares earn an additional participating dividend, which is declared in the following year based on consolidated income before non-controlling interest. Participating dividends earned on such shares were $26 during the year ended October 31, 2004. During the period ending August 4, 2005, the predecessor company paid dividends of $8 (October 31, 2004 - $166), which has been included as interest expense.

On June 29, 2005 the predecessor company redeemed the non-controlling interest for $8,500. The amount of the redemption value in excess of the non-controlling interest book value was charged to retained earnings.

16. COMMITMENTS AND CONTINGENCIES:

Pollard LP and its subsidiaries rent a premise and equipment under long-term operating leases. The following is a schedule by fiscal year of rental payment commitments under operating leases outstanding:

2006	$ 848
2007	104
2008	71
2009	13
2010	7

Pollard LP is contingently liable for outstanding letters of credit in the amount of $2,702 at December 31, 2005 (October 31, 2004 - $850). These letters of credit are part of Pollard LP's demand operating bank facility and are secured as disclosed in note 12.

During the year ended October 31, 2004 Amalco guaranteed a $3,300 mortgage on behalf of an affiliate. Pollard LP did not assume the guarantee on acquisition.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

16. COMMITMENTS AND CONTINGENCIES (CONTINUED):

Pollard LP is involved in litigation and claims associated with operations, the aggregate amounts of which are not determinable. While it is not possible to estimate the outcome of the proceedings, management is of the opinion that any resulting settlements would not materially affect the financial position of Pollard LP. Should losses occur on resolution of these claims, such loss would be accounted for as a charge to income in the period in which the settlement occurs. In addition, Amalco has agreed to indemnify Pollard LP for any losses relating to certain current litigation.

On November 28, 2005, Pollard LP reached a settlement with Oberthur Gaming Technologies Inc. ("OGT") ending a patent infringement action. Pursuant to the settlement, the suit was dismissed in consideration of a cash payment of $1.75 million to OGT. In accordance with the indemnification obligation entered into at the time of the issuance of units on August 5, 2005, Amalco assumed full responsibility for this payment.

Pollard LP has entered into a worldwide license agreement with OGT for the printing technology covered by the OGT patent for the remaining life of the patent of approximately 10 years. The amount and terms of future payments, if any, under the license agreement will be based on the outcome of litigation currently underway in the United States between OGT and Scientific Games International, Inc. to which Pollard LP is not a party. Depending on the outcome of this litigation, it is possible that no payments may be required under the license agreement. This agreement also contains a provision that the maximum total of all future payments under the license will not be greater than $3,250.

The General Partner and Pollard LP have agreed to indemnify Pollard LP's current and former directors and officers from and against liability and costs in respect of any action or suit against them in connection with the execution of their duties of office, subject to certain usual limitations. No claims with respect to such occurrences have been made and, as such, no amount has been recorded in these financial statements with respect to these indemnifications.

17. INTEREST:

	PERIOD FROM AUGUST 5, 2005 TO DECEMBER 31, 2005	PERIOD FROM NOVEMBER 1, 2004 TO AUGUST 4, 2005 (NOTE 2)	NOVEMBER 1, 2004 TO DECEMBER 31, 2005 (NOTE 2) (UNAUDITED) (PRO FORMA)	YEAR ENDED OCTOBER 31, 2004 (NOTE 2)
		(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)
Interest expense incurred on:				
Long-term debt	$ 1,075	$ 517	$ 1,592	$ 721
Other	4	159	163	168
	$ 1,079	$ 676	$ 1,755	$ 889

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

18. SUPPLEMENTARY CASH FLOW INFORMATION:

	PERIOD FROM AUGUST 5, 2005 TO DECEMBER 31, 2005	PERIOD FROM NOVEMBER 1, 2004 TO AUGUST 4, 2005 (NOTE 2)	NOVEMBER 1, 2004 TO DECEMBER 31, 2005 (NOTE 2) (UNAUDITED) (PRO FORMA)	YEAR ENDED OCTOBER 31, 2004 (NOTE 2)
		(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)
Change in non-cash operating working capital:				
Accounts receivable	$ (1,540)	$ (844)	$ (2,384)	$ 2,942
Loan to Pollard Amalco Inc.	(4,731)	–	(4,731)	–
Inventories	603	(1,213)	(610)	(1,169)
Prepaid expenses and deposits	(231)	273	42	(779)
Accounts payable and accrued liabilities	1,067	(10,113)	(9,046)	(1,989)
Distributions payable to Pollard Amalco Inc.	4,731	–	4,731	–
Income taxes recoverable/payable	(114)	3,340	3,226	715
	$ (215)	$ (8,557)	$ (8,772)	$ (280)

19. PENSION BENEFITS:

Pollard LP sponsors non-contributory defined benefit plans providing pension benefits to its employees. Pollard LP has four pension plans of which three are final pay plans and one is a flat benefit plan. None of the plans have indexation features. The measurement date for all the plans is December 31. The two plans of the U.S. subsidiaries require valuations annually with the last valuations being as of January 1, 2005. The two Canadian plans of Pollard LP require valuations every three years with the last valuations as of December 31, 2003 and December 31, 2004. Pollard LP's U.S. subsidiaries also maintain two defined contribution plans. The pension expense for these defined contribution plans is the annual funding contribution by the subsidiaries.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

19. PENSION BENEFITS (CONTINUED):

Information about Pollard LP's defined benefit plans, in aggregate, is as follows:

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2)
Benefit plan assets:		
Fair value, beginning of period	$ 9,652	$ 7,997
Actual return on plan assets	451	323
Employer contributions	1,213	1,541
Benefits paid	(384)	(92)
Other	(129)	(117)
Fair value, end of period	$ 10,803	$ 9,652
Accrued benefit plan obligations:		
Balance, beginning of period	$ 10,098	$ 8,469
Current service cost	1,363	1,249
Interest cost	848	552
Benefits paid	(384)	(92)
Actuarial loss	2,991	43
Other	(28)	(123)
Balance, end of period	14,888	10,098
Deficit of plan assets versus plan obligations	(4,085)	(446)
Unamortized net actuarial loss	3,977	678
Net accrued benefit plan asset (liability)	$ (108)	$ 232
Recognized in the consolidated balance sheets as follows:		
Prepaid expenses and deposits	$ –	$ 232
Accounts payable and accrued liabilities	(108)	–
Net accrued benefit plan asset (liability)	$ (108)	$ 232

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

19. PENSION BENEFITS (CONTINUED):

Included in the accrued benefit plan obligations and the fair value of benefit plan assets at period end are the following amounts in respect of plans with accrued benefit plan obligations in excess of plan assets:

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2)
Accrued benefit plan obligations	$ 14,888	$ 10,098
Fair value of benefit plan assets	10,803	9,652
Deficit	$ 4,085	$ 446

The total net cost for Pollard LP's defined benefit and defined contribution pension plans is as follows:

	PERIOD FROM AUGUST 5, 2005 TO DECEMBER 31, 2005	PERIOD FROM NOVEMBER 1, 2004 TO AUGUST 4, 2005 (NOTE 2)	NOVEMBER 1, 2004 TO DECEMBER 31, 2005 (NOTE 2) (UNAUDITED) (PRO FORMA)	YEAR ENDED OCTOBER 31, 2004 (NOTE 2)
		(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)
Net defined benefit plans cost:				
Current service cost	$ 542	$ 821	$ 1,363	$ 1,249
Interest on plan obligations	331	517	848	552
Actual return on plan assets	(167)	(284)	(451)	(516)
Difference between expected return and actual return on plan assets	(94)	(156)	(250)	24
Amortization of actuarial gains and losses	80	31	111	39
Net defined benefit plans cost	692	929	1,621	1,348
Defined contribution plans cost	64	116	180	197
Net pension plans cost	$ 756	$ 1,045	$ 1,801	$ 1,545

The significant actuarial assumptions adopted in measuring Pollard LP's accrued benefit obligations for 2005 and 2004 include:

	2005	2004
Discount rate	5.5% to 6%	6% to 6.75%
Expected long-term rate of return on plan assets	6%	6%
Rate of compensation increase	0% to 5%	0% to 5%

The benefit plan assets are held in trust and are invested in guaranteed investment certificates or equivalent money market instruments.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

20. RELATED PARTY TRANSACTIONS:

Pollard LP had the following related party transactions and balances not otherwise disclosed in these consolidated financial statements, all of which are in the normal course of operations and are measured at the exchange amount of consideration established and agreed to by the related parties being companies under common control:

	PERIOD FROM AUGUST 5, 2005 TO DECEMBER 31, 2005	PERIOD FROM NOVEMBER 1, 2004 TO AUGUST 4, 2005 (NOTE 2)	NOVEMBER 1, 2004 TO DECEMBER 31, 2005 (NOTE 2) (UNAUDITED) (PRO FORMA)	YEAR ENDED OCTOBER 31, 2004 (NOTE 2)
		(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)
Rent expense	$ –	$ 70	$ 70	$ 206
Sales and service fees	–	801	801	1,310
Accounts receivable	–	134	134	582

Included in accounts payable as at October 31, 2004 is $8,000 owing for the management bonus. Prior to August 5, 2005, Amalco purchased land and building from a related party for cash consideration of $2,400 being its appraised fair market value.

On August 5, 2005, the Fund, the Trust and the General Partner of Pollard LP entered into a Support Agreement. Under the terms of the Support Agreement, the General Partner will provide certain management, administrative and support services to the Fund and Trust and will be reimbursed for all direct and indirect costs and expenses it incurs in the provision of services pursuant to the Support Agreement. During the period August 5, 2005 to December 31, 2005, these reimbursed costs amounted to $74.

Issuance costs of the Fund of $6,246 related to the issuance of fund units on August 5, 2005, were borne by Pollard LP.

21. SALES TO MAJOR CUSTOMERS:

For the period August 5, 2005 to December 31, 2005, sales to one customer amounted to approximately 15 percent of consolidated sales. For the period November 1, 2004 to August 4, 2005, sales to one customer amounted to approximately 16 percent of consolidated sales.

For the 14 months ended December 31, 2005, sales to one customer amounted to approximately 16 percent (unaudited) of consolidated sales (12 months ended October 31, 2004 - 15 percent) and sales to a second customer amounted to approximately 11 percent of consolidated sales during the 12 months ended October 31, 2004.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

22. SEGMENTED INFORMATION:

Pollard LP's operations consist of one reporting segment principally in the manufacturing and sales of lottery and charitable gaming products. Geographic distribution of sales, property, plant and equipment and goodwill are as follows:

	PERIOD FROM AUGUST 5, 2005 TO DECEMBER 31, 2005	PERIOD FROM NOVEMBER 1, 2004 TO AUGUST 4, 2005 (NOTE 2)	NOVEMBER 1, 2004 TO DECEMBER 31, 2005 (NOTE 2) (UNAUDITED) (PRO FORMA)	YEAR ENDED OCTOBER 31, 2004 (NOTE 2)
		(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)	(FOR COMPARATIVE PURPOSES ONLY)
Sales:				
Canada	$ 18,213	$ 21,644	$ 39,857	$ 30,929
U.S.	39,177	86,459	125,636	110,844
Other	18,914	22,911	41,825	30,171
Total	$ 76,304	$ 131,014	$ 207,318	$ 171,944

	DECEMBER 31, 2005	OCTOBER 31, 2004 (NOTE 2)
Property, plant and equipment and goodwill:		
Canada	$ 22,443	$ 22,639
U.S.	21,865	22,185
	$ 44,308	$ 44,824

23. FINANCIAL INSTRUMENTS:

(a) Risk management:

FOREIGN CURRENCY CONTRACTS:

In order to manage Pollard LP's exposure to exchange rate fluctuations on United States dollar denominated cash flow, Pollard LP has entered into foreign currency contracts to exchange US$3,000 each month for approximately $3,637, for 24 consecutive months from January 2006 to December 2007. The foreign currency contracts are recognized in the balance sheet and measured at fair value, which at December 31, 2005 represented an asset of $4,070 (October 31, 2004 - nil).

INTEREST RATE SWAPS:

Pollard LP uses interest rate swap agreements in order to fix interest rates on a portion of long-term debt. The interest rate swap agreements entitles Pollard LP and Pollard Holdings, Inc. to receive interest at floating rates and pay interest at a fixed rate.

Pollard LP entered into an interest rate swap agreement and effectively converted variable rate debt obligations in the amount of $27,000 with underlying floating rates of 2.92 percent plus applicable credit margin to a fixed rate of 3.74 percent plus applicable credit margin.

Pollard Holdings, Inc. entered into an interest rate swap agreement and effectively converted variable rate debt obligations in the amount of $17,217 (US$14,778) with underlying floating rates of 4.01 percent plus applicable credit margin to a fixed rate of 4.67 percent plus applicable credit margin.

There were no interest rate swap agreements outstanding at October 31, 2004.

23. FINANCIAL INSTRUMENTS (CONTINUED):

CREDIT RISK:

Credit risk on Pollard LP's accounts receivable is minimized since they are mainly from governments and their agencies and are collected in a relatively short period of time. Credit risk on Pollard LP's net investment in leases is minimized since they are with governments and their agencies or dispersed among a large, diversified group of customers.

MARKET RISK:

Pollard LP sells a portion of its products to the United States and to international customers where sales are denominated in US dollars. In addition, Pollard LP purchases a portion of its goods from the United States. These activities give rise to exposure to market risk from changes in foreign exchange rates. Foreign currency contracts are used to mitigate these risks.

INTEREST RATE RISK:

Pollard LP is exposed to interest rate risk relating to its fixed and floating rate instruments. Fluctuation in interest rates will have an effect on the valuation and repayment of these instruments. Interest rate swap agreements are used to mitigate this risk.

(b) Fair value:

The fair value of a financial instrument is the estimated amount that Pollard LP would receive or pay to terminate the instrument agreement at the reporting date. The following methods and assumptions were used to estimate the fair value of each type of financial instrument by reference to various market value data and other valuation techniques as appropriate.

The fair values of cash and cash equivalents, accounts receivable, loan to Pollard Amalco Inc., accounts payable and accrued liabilities and distributions payable approximate their carrying values given their short-term maturities.

The fair value of the investment in leases approximate the carrying value as the interest rates implicit in the leases approximates rates for similar type instruments.

The fair value of the long-term debt approximates the carrying value due to the variable interest rate of the debt.

The fair value of foreign currency forward contracts is estimated utilizing current rates of exchange.

The fair value of the interest rate swaps as at December 31, 2005 is an asset of $156 and is based on the amount at which they could be settled. Consistent with hedge accounting this asset is not recorded in the financial statements.

24. LONG-TERM INCENTIVE PLAN:

Pollard LP plans to establish a formal long-term incentive plan ("LTIP") substantially in accordance with the terms and conditions described in the Fund's prospectus dated August 5, 2005 as follows:

The officers of the General Partner and key employees of Pollard LP are eligible to participate in a LTIP. The purpose of the LTIP is to provide eligible participants with compensation opportunities that will enhance Pollard LP's ability to attract, retain and motivate key personnel and reward officers and key employees for significant performance that results in Pollard LP exceeding its target per Unit cash available for distribution, as defined. Pursuant to the LTIP, Pollard LP has set aside a pool of funds based upon the amount, by which Pollard LP's cash available for distribution per fully-diluted Unit exceeds certain defined cash available for distribution targets, currently $0.9504 per Unit on an annualized basis.

(IN THOUSANDS OF DOLLARS, EXCEPT FOR UNIT AMOUNTS)

24. LONG-TERM INCENTIVE PLAN (CONTINUED):

The percentage amount of that excess which forms the LTIP incentive pool will be determined in accordance with the table below:

Percentage by which cash available for distribution per Fund Unit exceeds the base threshold:	Maximum proportion of cash available for distribution for LTIP payments:
5% or less	10%
Over 5% to 10%	15% of any excess over 5% to 10%
Over 10%	20% of any excess over 10%

For the period ended December 31, 2005, based on cash available for distribution per Fund Unit exceeding the base threshold, a provision for LTIP awards of $95 has been accrued in these financial statements.

The Board of Directors of Pollard Banknote Limited

Trustees of Pollard Banknote Income Fund

Senior Management

Gordon Pollard
CO-CHIEF EXECUTIVE OFFICER

John Pollard
CO-CHIEF EXECUTIVE OFFICER

Shawn Hughes
GENERAL COUNSEL AND VICE PRESIDENT, LEGAL AFFAIRS

Brian McAughey
VICE PRESIDENT, OPERATIONS

Gene McKay
VICE PRESIDENT, MANUFACTURING

Douglas Pollard
VICE PRESIDENT, LOTTERY MANAGEMENT SERVICES

Robert Rose
VICE PRESIDENT, FINANCE AND CHIEF FINANCIAL OFFICER

Don Sawatzky
VICE PRESIDENT, SALES AND MARKETING

Paul Sawyer
VICE PRESIDENT, INFORMATION SYSTEMS

Lyle Scrymgeour
VICE PRESIDENT, TECHNICAL

Bob Stewart
VICE PRESIDENT, MANUFACTURING

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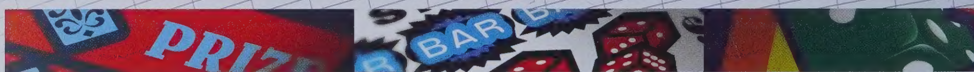

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